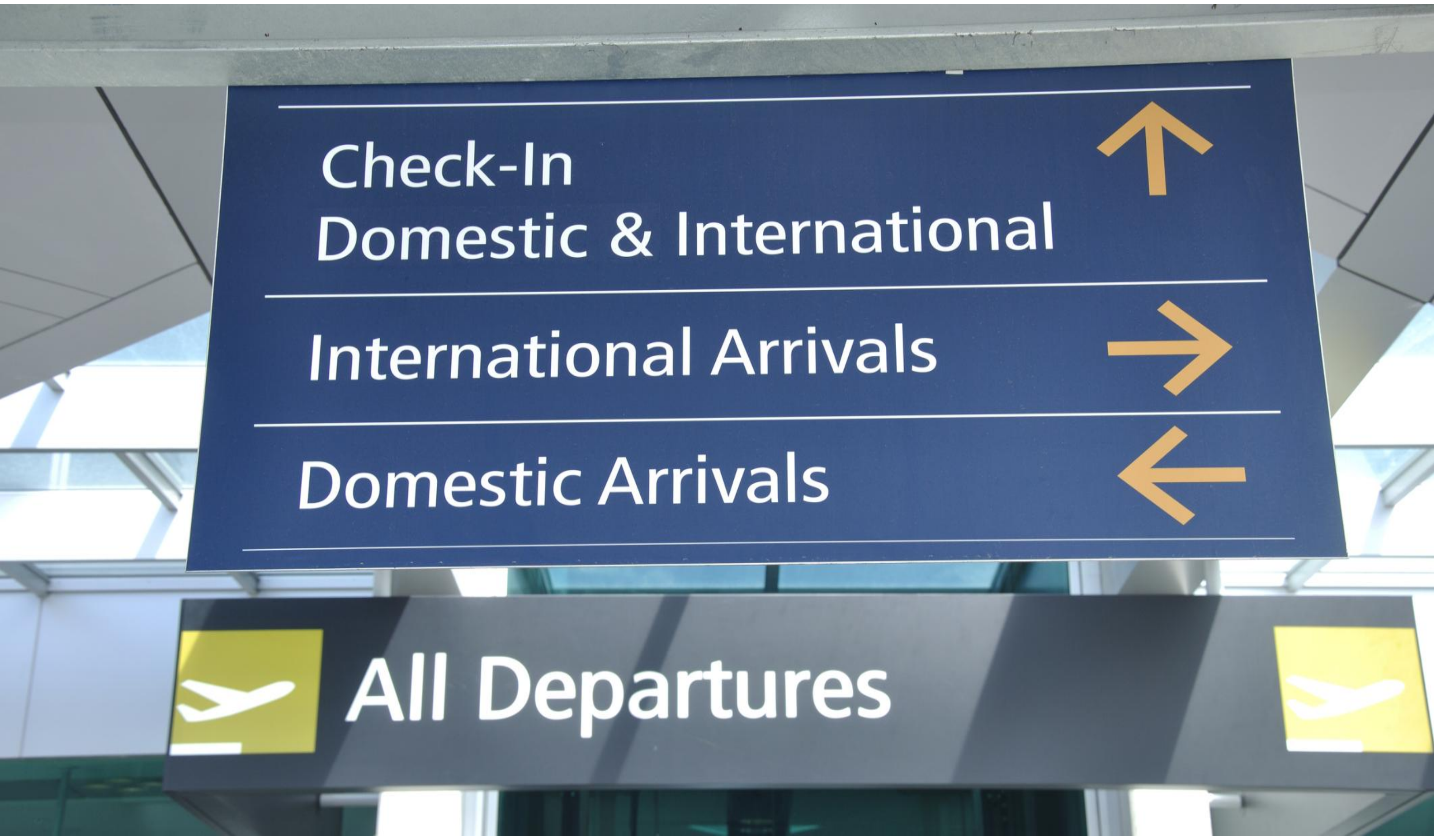


Are we there yet?

A submission on the Foreign Investment Fund (FIF) provisions of the Taxation (Annual Rates for 2025–26, Compliance Simplification, and Remedial Measures) Bill

NZIER submission to the Finance and Expenditure Committee

October 2025

About NZIER

The New Zealand Institute of Economic Research (NZIER) is an independent, not-for-profit economic consultancy that has been informing and encouraging debate on issues affecting Aotearoa New Zealand for over 65 years.

Our core values of independence and promoting better outcomes for all New Zealanders are the driving force behind why we exist and how we work today. We aim to help our clients and members make better business and policy decisions and provide valuable insights and leadership on important public issues affecting our future.

We are unique in that we reinvest our returns into public good research for the betterment of Aotearoa New Zealand.

Our expert team is based in Auckland and Wellington and operates across all sectors of the New Zealand economy. They combine their sector knowledge with the application of robust economic logic, models and data and understanding of the linkages between government and business to help our clients and tackle complex issues.

Authorship

This paper was prepared at NZIER by Peter Wilson and Julie Fry.

It was quality approved by Phillipa Miller Moore.

The assistance of Sam Blackman and Sarah Spring is gratefully acknowledged.

How to cite this document:

NZIER. [2025]. Are we there yet? A submission on the Foreign Investment Fund (FIF) provisions of the Taxation (Annual Rates for 2025–26, Compliance Simplification, and Remedial Measures) Bill.

Registered office: Level 13, Public Trust Tower, 22–28 Willeston St Wellington
Auckland office: Level 4, 70 Shortland St, Auckland
Postal address: PO Box 3479, Wellington 6140
Tel 0800 220 090 or +64 4 472 1880 | econ@nzier.org.nz | www.nzier.org.nz

Key points

The Taxation (Annual Rates for 2025–26, Compliance Simplification, and Remedial Measures) Bill (the Bill) recognises that the Foreign Investment Fund (FIF) regime, while important for protecting the integrity of the New Zealand tax base, has generated significant practical problems for some taxpayers.

NZIER's analysis of these issues, which prompted the Government to introduce this Bill, showed that New Zealand's international tax regime is anything but welcoming for people seeking to build innovative ventures from New Zealand.

NZIER welcomes the Government's acknowledgement that making New Zealand a place where talented people and investors want to stay and build their futures is a key economic policy objective.

The Government's proposed changes are a partial response, aimed at easing cash-flow and double taxation pressures in a limited set of cases. However, the reforms do not address the broader structural issues that make the regime increasingly ill-suited to a world where talent and capital are highly mobile.

The result is a modest adjustment rather than a comprehensive solution that will help make New Zealand a place where talent wants to live.

What the Bill does

The Bill introduces a new revenue account method (RAM) for certain FIF interests. The RAM taxes on realisation (dividends plus 70 percent of gains or losses) rather than accrual. It is targeted at recent migrants and returning New Zealanders with pre-arrival, illiquid, unlisted foreign shares, and provides an extended RAM for US persons to mitigate double taxation.

Several recommendations from earlier NZIER reports (Wilson and Fry 2024; Fry and Wilson 2025) are partially met, but important gaps remain. Key differences include:

- NZIER recommended exempting all pre-arrival assets from taxation. The Bill taxes them under the RAM.
- NZIER suggested realisation-based taxation without fine distinctions by asset class or country. The Bill imposes asset-type and residency restrictions.
- NZIER noted that distinguishing between migrants, returnees, and asset types increases complexity. The Bill introduces several such distinctions.
- NZIER proposed a shorter absence test and broader access for returning Kiwis. The Bill restricts the RAM to post-1 April 2024 arrivals and excludes transitional residents.
- NZIER suggested a 50 percent inclusion rate for gains, which equates to a marginal tax rate of 19.5 percent for a top rate taxpayer. The Bill sets the rate at 70 percent. This results in a top marginal tax rate of 28 percent, which is not internationally competitive.
- NZIER highlighted the need for explicit foreign tax credit coordination with the IRS and others. The Bill does not provide this.

What remains to be done

While the Revenue Account Method is a welcome step, significant problems remain for those building and funding innovative firms in New Zealand. The issues are particularly acute for Kiwis and returning Kiwis. Key barriers include:

- Returning Kiwis who arrived before 1 April 2024 or who held transitional residency are excluded, even though they face the same issues the RAM seeks to solve.
- The standard RAM excludes listed shares and fund interests, which are common vehicles for innovative companies to raise capital as they grow.
- The RAM applies only to pre-arrival holdings. Post-arrival investments, even those linked to New Zealand ventures, remain taxed on accrual.
- Employees of New Zealand start-ups that 'flip up' (move their place of incorporation) to other jurisdictions can be taxed under FIF before liquidity, discouraging participation in high-growth ventures.[1]
- Complexity and compliance burdens remain high, with valuation rules, deemed disposals, and ring-fencing creating uncertainty and costs.
- Double taxation risk is reduced for US persons but not for those with obligations in other jurisdictions.

These barriers will continue to discourage talented people from developing global businesses from New Zealand.

Recommendations

NZIER's primary recommendation is that the Bill should proceed, with amendments.

The Bill should be seen as the first step in a more comprehensive programme of reform of taxation and regulatory systems that will enable New Zealand to reach its full potential as a place where talent wants to live. Given this, some of NZIER's recommendations are for issues to be developed further through the Generic Tax Policy Process, before being submitted to Parliament.

Detailed recommendations are included in the main body of this submission and consolidated in Appendix A.

[1] The United States being the most material destination, due to the size of its capital base.

Contents

Appendices

Figures

Tables

1 Background

A group of interested parties has commissioned the New Zealand Institute of Economic Research (NZIER) to prepare this submission on the Taxation (Annual Rates for 2025–26, Compliance Simplification, and Remedial Measures) Bill.

This submission is exclusively concerned with the proposed amendments to the Foreign Investment Fund regime.

The FIF provisions in this Bill had their genesis in a report NZIER prepared last year (Wilson and Fry 2024), which considered whether New Zealand is an attractive place for talented people to live, work and build innovative businesses with global potential.[2]

The answer was a resounding no.

NZIER found that New Zealand's tax system, especially the FIF regime, was anything but welcoming, particularly for people who have already been successful overseas and built a portfolio of investments. Based on extensive discussions with actual and potential migrants and returnees and their local advisers, NZIER concluded that current tax settings are making New Zealand a place where, despite strong attachments to the country, talented people feel unable to stay for financial reasons.

When announcing the introduction of this Bill, the Minister of Revenue acknowledged that making New Zealand a place where talented people and investors want to stay and build their futures is a key economic policy objective of the Government (Watts 2025). NZIER welcomes this statement.

1.1 Lifting living standards in New Zealand

The wider context of this Bill is New Zealand's lacklustre economic performance.

Our comparative living standards are falling, and too many of our best and brightest people are leaving, some never to return.

New Zealand's small population and distance from major markets impose enduring economic challenges. The domestic market is often too small to support economies of scale, while exporters face transport costs that reduce international competitiveness.

One of the few viable ways to address these constraints is to increase the production and export of knowledge-intensive, weightless goods and services. These include software, digital platforms, online media, data services, and remote education or consulting. Such products are scalable, location-independent, and can be delivered globally at very low marginal cost.

[2] A version of this question was famously posed by Sir Paul Callaghan in March 2011. At one point, Sir Paul describes the sorts of companies he has in mind as being those that make "weird stuff": specialist products that while they are profitably sold into specialist markets, are often not household items. A video of the speech is available at https://www.youtube.com/watch?v=OhCAyIllnXY.

High-growth, innovative firms developing weightless goods and services can make a disproportionate contribution to lifting national living standards, directly through an increase in local investment and production, and indirectly by lifting the stock of human capital in New Zealand.

NZIER submits that the government should be working to develop a fit-for-purpose tax and regulatory environment that removes unnecessary barriers to the creation and rapid expansion of these firms. This requires allowing talent and markets to drive results while supporting important policy fundamentals: a fair tax system that raises the revenue the government needs; a labour market free from discrimination and exploitation; capital markets that shield investors from scams; and a regulatory environment that provides effective stewardship of New Zealand's outstanding natural heritage.

1.2 The FIF rules were designed for a different age

The FIF rules were introduced in 1989 to address concerns that New Zealand residents investing offshore were gaining tax advantages compared to those investing domestically. The FIF regime aimed to create neutrality by taxing overseas portfolio investment on an accrual basis, regardless of whether income was distributed.

> *A fundamental aim of the Government's policy will always be, consistent with meeting other policy objectives, to ensure that, whatever the location of investment or the source of finance, all investment decisions make the most efficient use of New Zealand's resources. Policy that achieves this objective will make the greatest possible contribution to economic growth and consequentially improving living standards for all New Zealanders. (*Birch and Creech 1995, 8)

While the intent was to protect the tax base, the FIF regime was not built for a world in which talent is highly mobile.

When the FIF regime was being designed, there was an expected hierarchy of responsiveness to changes in taxation (Slemrod 1992, 253):

- The timing of transactions would be the most responsive.
- Financial and accounting responses, where people, for example, would rearrange their portfolios in response to changes in the way different assets were taxed, would be next.
- Changes to real decisions of individuals and firms, including the types of businesses they operate, the location of businesses, and where employees or owners live, would be the least responsive.[3]

Today, people move across borders frequently, and entrepreneurial capital is often tied up in illiquid equity in innovative and high-growth companies. The accrual nature of the FIF rules creates cash-flow issues when income is taxed before it is realised. As a result, the regime increasingly acts as a barrier to attracting and retaining globally mobile talent.

The rules have a particularly chilling impact on innovative, high-growth companies where available revenue is primarily applied to expanding production and disrupting markets.

[3] Real in the sense that they result in changes in the post-tax income and consumption patterns of people.

Paying dividends is not a near-term priority. Profits are reinvested to scale, strengthen market position, and fuel continued growth.[4]

Such firms and their founders and funders are not generally expecting cash returns during their high-growth phase. For many of these businesses, success is when the underlying business is sold, either to a large, often overseas, interest or to the public via an IPO. It is at this point that returns to investment are realised.

1.3 The FIF regime is a core part of the tax system

As part of New Zealand's broad-base, low-rate approach to taxation, the FIF rules play an important role in maintaining the neutrality of the income tax regime's treatment of investments, particularly for the financial sector. KiwiSaver funds, for example, are subject to the FIF regime on their extensive portfolio investments offshore.

Wholesale repeal of the regime, or narrowing its scope so that it only applies to financial institutions, would involve large fiscal and economic costs that would not produce offsetting economic or fiscal benefits.

The challenge, therefore, is to update the application of the broad-base, low-rate approach to fit the world as it is today, not the world that existed at the end of the last century.

2 What the Bill does

The Bill introduces a new Revenue Account Method (RAM). Under the RAM, dividends and 70 percent of realised gains or losses are taxed when shares are sold, rather than annually on accrual. The measure is designed to alleviate cash-flow and valuation difficulties for individuals holding illiquid offshore equity.

Eligibility for the RAM is extremely limited. The standard RAM applies to individuals who became resident on or after 1 April 2024, were non-resident for at least five years, and are not transitional residents. The shares must be acquired before the taxpayer became a New Zealand resident, be unlisted, illiquid, and not predominantly derive value from listed or redeemable interests.

The Bill also establishes an 'extended RAM' for taxpayers subject to tax on disposal in another jurisdiction, most notably US citizens and Green Card holders.[5] In these cases, the RAM can apply more broadly to all foreign shares, regardless of listing status or acquisition date. This measure is explicitly aimed at reducing the risk of double taxation.

The RAM applies from 1 April 2025. The legislation sets out detailed provisions for carry-forward of losses, ring-fencing, and deemed disposals when changing methods.

4 In the earliest stages, firms will often have negative cash flow, as they use available capital to develop the business. Once a product is taken to market and the firm starts to earn external income, revenues are typically ploughed back into building capacity and market share. Paying dividends to investors usually only starts after the firm has been sold, via either an IPO or acquisition by a larger company.

5 A Green Card is the identity document issued to permanent residents of the United States. A Green Card holder who is also a tax resident of the United States is taxed in the same way as citizens, on their worldwide income. Like citizens, a Green Card holder who ceases to be a tax resident in the United States is still taxed by the United States on their worldwide income (Internal Revenue Service 2025).

3 Issues that should be addressed now

NZIER's two reports (Wilson and Fry 2024; Fry and Wilson 2025) outlined a range of first-best and second-best reforms to the FIF regime. The Bill only partly adopts these.

The Bill does, however, address important, pressing issues that are standing in the way of New Zealand's economic development.

Recommendation 1

NZIER recommends that:

a) the Bill proceed, with amendments

b) the Committee note in its report that the Bill is the first step in a reform agenda across tax and regulatory settings designed to make New Zealand a place where talent wants to live.

3.1 Exempting pre-arrival assets

NZIER's preferred approach was straightforward: exclude all pre-arrival assets of migrants and returning expatriates from New Zealand tax. This would remove a significant barrier to talent attraction while recognising that such holdings are typically illiquid, sometimes hard to value, and rarely a large source of revenue.

This is justified on efficiency grounds. Taxing these assets has high deadweight losses.[6]

Migrants and returning expatriates are taxed on their New Zealand-sourced income and consumption once they arrive in New Zealand. Thus, they are making an equitable contribution to funding the country's public sector. While superficially attractive, attempting to impose additional taxes that have the practical effect of discouraging people from living in New Zealand means that the government loses all this tax revenue.

Any small amount of FIF revenue that might be gained will most likely be offset by a larger loss in tax on domestic activity.

The Bill does not follow this recommendation. Instead, it establishes the RAM, which continues to tax pre-arrival holdings, albeit on a realisation rather than an accrual basis, and only for those who meet narrow eligibility criteria.

Recommendation 2

NZIER recommends that the Bill be amended to include a carve-out for pre-arrival assets, provided taxpayers meet the proposed five-year absence test.

[6] Taxes transfer money from taxpayers to the government: this is the 'fiscal burden' of a tax, which reduces the welfare of the taxed party. At a national level, this fiscal burden is matched by the spending that taxes finance, meaning that they generally offset each other. But taxes also take welfare from the economy and transfer it to nobody. This effect is variously called the excess burden, the efficiency cost, or the deadweight loss of taxes. These costs arise because taxes change behaviour. Auerbach and Hines (2002) is a general review.

3.2 Simple rules

NZIER argued that if taxation were to be retained, it should be based on realisation without fine distinctions between classes of asset or categories of taxpayer. NZIER noted the high deadweight, administrative and compliance costs of the existing regime due to multiple methods, exclusions, and thresholds.

Realisation-based taxation has the advantage, in terms of attracting talent to New Zealand, of being familiar to many taxpayers, since it is a common approach to taxing the sale of shares internationally.

The Bill has not followed this recommendation. Rather, it applies realisation to a narrow group of FIF interests, while other types of interests will be subject to the existing rules.

The Bill applies the RAM only to unlisted and illiquid shares acquired before arrival, and limits its availability to people who became residents after 1 April 2024. This draws new lines, creating further distinctions between migrants, returnees, and asset types, exacerbating the complexity that NZIER warned against.

The regime also continues to impose cash-flow and compliance costs on those who fall outside the new method. Valuations, record-keeping, and the possibility of deemed disposals when changing methods create complexity and uncertainty, with associated stress for individuals and families. NZIER's interviews captured the practical, financial and psychological impacts of these pressures, which are not eliminated by a reform that applies only narrowly.

If the Committee does not accept NZIER's first-best solution of exemption, then NZIER recommends that the RAM method be available for use by all eligible taxpayers on all their FIF holdings.

Recommendation 3

NZIER recommends that the definition of FIF Interest in the new Section EX 46B be amended to remove the requirement that shares not be listed and illiquid.

3.3 Restricting the RAM to pre-arrival holdings

The RAM is restricted to pre-arrival holdings of unlisted and illiquid shares. For people actively founding and funding high-growth firms, this definition is too narrow.

Start-up equity often transitions through different structures as companies grow. Once a company lists or if its value is channelled through redeemable or fund-like structures, the holdings no longer qualify as RAM interests. Similarly, Kiwis who invest after they return, whether in follow-on rounds, co-investments alongside offshore backers, or portfolio diversification, continue to be taxed on an accrual basis. Founders and early-stage employees of successful high-growth firms often go on to fund other ventures, drawing their capital, experience and contacts (Simpson 2025). Limiting the RAM regime to pre-arrival holdings will undermine the ability of returnees to support domestic ventures at the stage where additional capital is often most needed.

Recommendation 4

NZIER recommends that the definition of RAM interest be amended so that it also applies to investments in the same company made after a person becomes a RAM taxpayer.

3.4 A short, pragmatic absence test

NZIER recommended a short and pragmatic absence test. A five-year period was seen as reasonable compared to the ten-year test canvassed in earlier policy discussions.

The Bill does adopt a five-year test, but it limits eligibility to people who became tax residents after 1 April 2024.[7] As a result, many New Zealanders who returned home immediately before and during the height of the COVID-19 pandemic remain outside the scope of the reform, even though they face the same problems.

Recommendation 5

NZIER recommends that all immigrants and returning expatriates who have met the five-year test, regardless of when they arrived in New Zealand, should have the option of using the RAM method.

3.5 A competitive rate for realised gains

NZIER proposed taxing half of realised gains, reflecting an inclusion rate of 50 percent, whereas the Bill adopts a higher rate of 70 percent.

For a taxpayer on the top marginal tax rate, the Bill will mean an effective rate of tax of:

0.7 x 0.39 = 0.273= 27.3%.

If the inclusion rate were 50 percent, the calculation would give the following result:

0.5 x 0.39 = 0.195 = 19.5%.

The judgement underlying what rate to apply is whether it will be sufficient to encourage significant numbers of people to move to, or return to, New Zealand in the face of extensive preferential tax treatment provided in their home country, especially the US.[8]

A tax rate of 19.5 percent is attractive in international terms, as shown in Table 1.

Table 1 Tax rates in comparable countries

Top rate on long term assets

Country	Rate (%)
United States	23.8
Australia	22.5
United Kingdom	24

Notes

1 The rate shown for the United States is the federal income tax. Some states and cities apply additional taxes.

2 Australia applies marginal tax rates to individuals earning capital gains, but applies a 50 percent discount on gains in annual income if the asset is held for more than 12 months.

Source: (Mengden 2025; Tax Foundation 2025); Australian Tax Office (2025)

7 Note that the transitional residence provisions of the Income Tax Act exempt from tax FIF income for the first four years that a person is a resident of New Zealand. This means that people who arrived in New Zealand after 1 April 2020 will not be subject to FIF taxation under the fair dividend rate (FDR) method if they elect to use the RAM method at the end of their transitional period.

8 The United States tax code includes a provision called the Qualified Small Business Stock (QSBS). This provision excludes from capital gains tax the proceeds from the sale of shares in certain qualified small businesses (Internal Revenue Service 2024, 95). For shares issued after 4 July 2025 (the date of effect of the One Bill Beautiful Bill Act), a taxpayer can exclude the greater of $US15 million (adjusted for inflation) or ten times their investment in the stock if the shares are held for more than five years.

Matching tax concessions runs counter to the broad-base, low-rate principle that has driven tax policy in New Zealand for the last 30 years.[9] New Zealand must, however, be alive to twin realities: it is a small country a long way from major centres of commerce and other countries are willing to operate tax systems that are far from economically or socially justified.[10]

Recommendation 6

NZIER recommends that the formulas in proposed Section EX 56B that calculate the amount of the net disposal amount be changed to apply a 50 percent discount.

3.6 Explicit foreign tax coordination

NZIER also emphasised the importance of explicit coordination with overseas tax authorities, especially the US Internal Revenue Service, to ensure that foreign tax credits are available when US citizens are taxed under the FIF regime.

The Bill addresses this issue indirectly by extending the RAM to US persons, but it does not establish the explicit mechanisms for crediting that NZIER identified as necessary.

Addressing this issue does not require legislative change. Rather, officials need to engage in discussion with their overseas counterparts on the extent to which FIF tax is creditable by other countries under existing law and relevant Double Tax Agreements.

Recommendation 7

NZIER recommends that the Committee include in its report commentary urging officials to prioritise engagement with overseas counterparts on the extent to which FIF tax is creditable under existing law and relevant Double Tax Agreements.

3.7 Conclusion

The choice between the status quo and what is in the Bill is clear: the Bill is preferable.

While the Bill is an improvement over the status quo, it does not go far enough.

---

9 Since broad-base, low-rate was adopted as a guiding principle for tax policy, there have been many reviews of the New Zealand tax system undertaken both locally and by international bodies like the OECD and the IMF. Four major local reviews have been undertaken: The Committee of Experts on Tax Policy (1999); Tax Review 2001; The Victoria University of Wellington Tax Working Group (2010) and the Tax Working Group (2019). The OECD has undertaken two comprehensive reviews of the tax system (OECD 2000; 2007). Successive biennial Economic Surveys of New Zealand by the OECD have also considered tax matters to a greater or lesser degree. Likewise, the IMF's routine consultations with the New Zealand authorities also address tax policy. While each of these reviews has made recommendations for specific changes to the tax system, none has suggested moving away from the current overall broad-base, low-rate approach.

10 New Zealand has a long-standing policy of not setting its tax policies to respond to every concession offered by other countries, out of concerns about avoiding a 'race to the bottom'. It has also strived to operate a coherent tax policy that is fit for local conditions. Ad hoc importing of specific elements of other countries' tax system can quickly lead to a tax system that has high economic, equity and compliance costs, while failing in its basic task of raising sufficient revenue to fund government spending.

The Bill does not address all the problems identified with the application of the FIF regime to immigrants and returning expatriates. These barriers will continue to discourage talented people from developing global businesses from New Zealand.

In short, the Bill addresses some of the problems that NZIER highlighted in its reports, but does so narrowly and in ways that fall short of the simpler, more comprehensive solutions NZIER recommended.

The Committee has an opportunity to improve the Bill so that it addresses genuine barriers to New Zealand's economic development and ability to attract and retain entrepreneurial talent.

4 Remaining FIF issues for innovative, high-growth companies

While the RAM is a welcome, albeit partial, step, it does not resolve all of the problems facing people building, employed by and funding innovative firms in New Zealand.

These problems affect not just new migrants but also New Zealanders and returning expatriates, for whom the FIF rules remain a barrier to investing and participating in high-growth ventures.

Some of the issues identified below have already been subject to extensive discussion between the government, its advisers, tax practitioners and impacted parties. These can safely be addressed in the current Bill.

On other issues, there is a strong case for the Committee to allow the Government and its advisers to engage in further, direct consultation with affected parties once the current Bill has passed.

We have clearly distinguished between these in our recommendations.

The Committee should make clear to Parliament, the Government and taxpayers that, even with the modifications NZIER recommends in this submission, this Bill is not the end of necessary reforms to the FIF regime. It is the first step of a multi-stage reform process.

To allow the Committee to appreciate the extent of further work that is required, the various issues are discussed in more detail below.

4.1 Narrow scope

The first limitation relates to scope. The RAM is available only to those who became resident on or after 1 April 2024.

People who have always been residents of New Zealand are ineligible to use the RAM method.

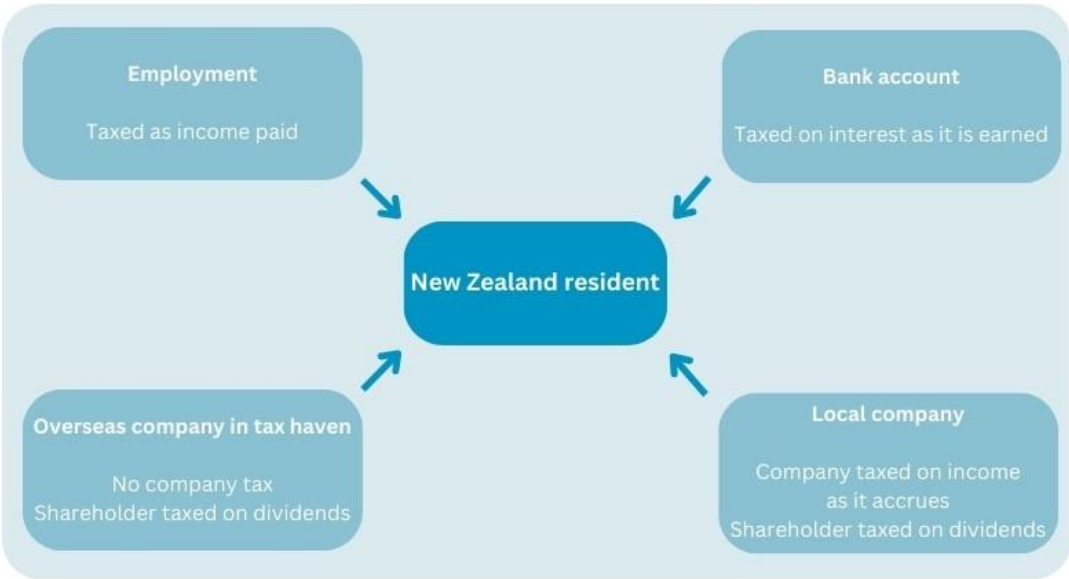
While clearly not a barrier to people returning to New Zealand, the Fair Dividend Rate (FDR) method, which taxes FIF interests regardless of the underlying economic circumstances of their interests, does mean that remaining a resident of New Zealand involves tax cost.

However, allowing people who have always been New Zealand residents access to the RAM method is not justified.

First, those people have faced some type of taxation of their foreign holdings since the early 1990s. They made their investments knowing what the tax implications are. This is different from immigrants and many returning expatriates, who were not subject to New Zealand tax laws when they made their pre-arrival investments.

Second, moving from an accrual-based FIF regime to realisation would introduce a significant distortion into the tax system. As NZIER explained in its first report on FIF and immigration (Wilson and Fry 2024), the FIF regime is designed to replicate, as far as possible, the domestic treatment of investments.

Figure 1 The taxation of different investments.



Source: Wilson and Fry (2024)

In New Zealand, employment income is taxed as it is earned: via PAYE for employees, and through provisional tax for the self-employed. Bank interest is taxed on accrual, with Resident Withholding Tax deducted at source.

Domestic companies pay tax on their income as it accrues; shareholders are taxed on dividends, with imputation credits applied for company tax already paid. This reduces any tax advantage between wages and business income.

New Zealand cannot enforce company tax on foreign-resident firms. Where these are in low- or no-tax jurisdictions, income escapes accrual taxation. New Zealand can tax dividends, but only on distribution, creating a timing advantage and encouraging offshore investment. The FIF regime was introduced to prevent this.

Extending the RAM method to all residents would defer tax until realisation and thus significantly reduce liabilities, distorting the domestic system.

Officials proposed a method of overcoming the cash-flow issues with the FDR method, while not creating a deferral advantage, in their original issues paper (Inland Revenue Department 2024). Their proposed deferral method also taxes on realisation but adjusts liabilities for the timing benefit, following the approach in Section CF 3 of the Income Tax

Act 2007, which applies to foreign superannuation funds. The material supporting the Bill does not explain why the Government decided not to include the deferral method as an additional option (Inland Revenue Department 2025a; 2025b). However, NZIER considers that the deferral method would be an appropriate solution to the cash flow issues faced by existing residents.

If the Committee is concerned about the FDR method's impact on long-term residents, NZIER suggests allowing them the option of the deferral method. While relatively novel, the method is already provided for in Section CF 3, and taxpayers with significant FIF interests generally act on professional advice and will choose whichever approach best suits their position.

Recommendation 8

NZIER recommends the Bill be amended to allow the deferral method to be made available as an additional option for calculating FIF income for all natural persons resident in New Zealand.

4.2 Challenges for firms that 'flip up' to attract capital

There are ongoing challenges for employees of New Zealand firms that change their place of incorporation to the United States in order to attract capital. Once the parent company is overseas, local employees with equity stakes can find themselves taxed on deemed FIF income before they have any corresponding cash flow.[11] For staff on ordinary salaries, this creates a strong disincentive to join such firms. The RAM does not address this structural issue, which is increasingly common as New Zealand companies seek access to larger venture capital funding pools.

The issue is that when a New Zealand company changes its place of incorporation, resident shareholders with minority stakes (less than 10 percent) can become subject to the FIF regime. This typically occurs when firms 'flip up' to the United States to secure investment. While operations often remain in New Zealand, employees holding shares may become FIF taxpayers.

In these cases, employees can be taxed on paper gains under the FDR method, even where no dividends are paid and shares are illiquid. This creates an additional layer of tax on New Zealand-sourced income already subject to company tax, with no access to imputation credits.

This problem could be addressed by amending the FIF regime to permanently exclude all shares in companies that have moved their place of incorporation from New Zealand, where the underlying operations continue to be taxed in New Zealand.

The current ten-year exemption is essentially arbitrary. It appears to have been designed on the assumption that the firms would be sold before the exemption expired. While an eventual sale or public listing is often the goal of start-up companies, the timeframe for achieving this is very company-specific. As NZIER can see no real detriment from this

[11] Section EX 36 of the Income Tax Act currently contains provisions that grant conditional exemption to shareholders in companies that emigrate to 'grey list' countries (Australia, Canada, Germany, Japan, United Kingdom, United States, Norway and Spain). This provision was initially introduced in 2006. The exemption only applies to people who were shareholders on the date that the company emigrated.

exemption, since New Zealand continues to tax the local operations of these companies, the Act should not impose an arbitrary constraint on the sale process.

Recommendation 9

NZIER recommends that the Committee signal its support in principle to amending the FIF regime so that shares in companies reincorporated offshore but still taxed in New Zealand are excluded, and encourages the Government to develop a detailed solution via the Generic Tax Policy Process for enactment next year.

4.3 Ongoing risk of double taxation

Finally, while the extended RAM reduces the risk of double taxation for US taxpayers, it does little for those with obligations in other jurisdictions. Kiwis who have worked in the UK, Australia, or elsewhere may face similar problems when local taxes on disposal are not creditable against accrual FIF liabilities in New Zealand. Without broader international coordination, the risk of double taxation continues to deter people from basing themselves here.

Recommendation 10

NZIER recommends that the Committee recognise the wider risks of double taxation beyond the United States, and direct officials to explore options through the Generic Tax Policy Process for extending relief to taxpayers with obligations in other jurisdictions.

5 Conclusion

The FIF regime plays a crucial role in safeguarding the tax base by ensuring that offshore investments are taxed in a manner broadly similar to investments made in New Zealand.

The Bill makes a useful contribution by introducing a realisation-based method for a limited group of taxpayers, reducing some of the cash-flow pressures and double taxation risks that have been most acute.

At the same time, the changes are tightly drawn and do not address many of the broader issues identified in NZIER's previous reports. Returning New Zealanders who arrived back before 1 April 2024 remain outside the scope of the reform. Listed shares and post-arrival investments, which are common features of many business ventures, continue to be taxed on an accrual basis. Employees of firms that reincorporate overseas still face the risk of being taxed on paper gains before they have any liquidity. For those with tax obligations outside the United States, the risk of double taxation remains.

These gaps matter because they discourage active participation in high-growth ventures and reduce New Zealand's attractiveness as a base for globally mobile talent. The Bill is therefore best seen as a step in the right direction rather than a final resolution.

Further reform, including broader access to realisation treatment and clearer international coordination of tax credits, would better align the regime with its equity and efficiency objectives, while continuing to protect the tax base.

Specific recommendations are consolidated in Appendix A for ease of reference.

This approach would enable New Zealand to shift from penalising ambition to attracting it. Only then can Aotearoa be confident of being a country where talent actively chooses to live and invest.

References

Auerbach, Alan, and James Hines. 2002. 'Taxation and Economic Efficiency'. In *Handbook of Public Economics*, vol. 3. Elsevier. https://econpapers.repec.org/bookchap/eeepubchp/3-21.htm.

Australian Tax Office. 2025. 'Tax rates – Australian resident'. https://www.ato.gov.au/tax-rates-and-codes/tax-rates-australian-residents.

Birch, Bill, and Wyatt Creech. 1995. *International Tax - a Discussion Document*. Government of New Zealand. https://www.taxpolicy.ird.govt.nz/publications/1995/1995-dd-international-tax.

Fry, Julie, and Peter Wilson. 2025. *Getting Closer to Becoming a Place Where Talent Wants to Live: Comments on 'Effect of the FIF Rules on Immigration - Proposals for Amendments'*. New Zealand Institute of Economic Research.

Inland Revenue Department. 2024. *Effect of the FIF Rules on Immigration: Proposals for Amendments*. Government of New Zealand.

Inland Revenue Department. 2025a. *Bill Commentary: Taxation (Annual Rates for 2025–26, Compliance Simplification, and Remedial Measures) Bill*. Government of New Zealand.

Inland Revenue Department. 2025b. *Departmental Disclosure Statement: Taxation (Annual Rates for 2025−26, Compliance Simplification, and Remedial Measures) Bill*. Government of New Zealand.

Internal Revenue Service. 2024. *Investment Income and Expenses (Including Capital Gains and Losses)*. Publication No. 550. US Department of the Treasury.

Internal Revenue Service. 2025. *U.S. Tax Guide for Aliens*. IRS Publication 519. US Department of the Treasury.

Mengden, Alex. 2025. 'Capital Gains Tax Rates in Europe, 2025'. *Tax Foundation*, March 11. https://taxfoundation.org/data/all/eu/capital-gains-tax-rates-europe/.

OECD. 2000. *OECD Economic Surveys: New Zealand 2000*. OECD Economic Surveys: New Zealand. OECD. https://doi.org/10.1787/eco_surveys-nzl-2000-en.

OECD. 2007. *OECD Economic Surveys: New Zealand 2007*. OECD Economic Surveys: New Zealand. OECD. https://doi.org/10.1787/eco_surveys-nzl-2007-en.

Simpson, Rowan. 2025. *How To Be Wrong: A Crash Course in Startup Success*. Electric Fence.

Slemrod, Joel. 1992. 'Do Taxes Matter? Lessons from the 1980's'. *The American Economic Review* 82 (2): 250–56.

Tax Foundation. 2025. 'Federal Capital Gains Tax Collections, Historical Data (1954-2018)'. Tax Foundation, August 15. https://taxfoundation.org/data/all/federal/federal-capital-gains-tax-collections-historical-data/.

Watts, Simon. 2025. *Tax Bill to Grow the Economy and Ease Cost of Living*. Government of New Zealand. https://www.beehive.govt.nz/release/tax-bill-grow-economy-and-ease-cost-living.

Wilson, Peter, and Julie Fry. 2024. *The Place Where Talent Does Not Want to Live.* New Zealand Institute of Economic Research.

Appendix A List of recommendations

NZIER recommends that the government adopt more comprehensive reforms to the FIF regime, which will enable New Zealand to reach its true potential as a place where talent wants to live.

Recommendation 1

NZIER recommends that:

a) the Bill proceed, with amendments.

b) the Committee note in its report that the Bill is the first step in a reform agenda across tax and regulatory settings to make New Zealand a place where talent wants to live.

Recommendation 2

NZIER recommends that the Bill be amended to include a carve-out for pre-arrival assets, provided taxpayers meet the proposed five-year absence test.

Recommendation 3

NZIER recommends that the definition of FIF Interest in the new Section EX 46B be amended to remove the requirement that shares not be listed and illiquid.

Recommendation 4

NZIER recommends that the definition of RAM interest be amended so that it also applies to investments in the same company made after a person becomes a RAM taxpayer.

Recommendation 5

NZIER recommends that all immigrants and returning expatriates who have met the five-year test, regardless of when they arrived in New Zealand, should have the option of using the RAM method.

Recommendation 6

NZIER recommends that the formulas in proposed Section EX 56B that calculate the amount of the net disposal amount be changed to apply a 50 percent discount.

Recommendation 7

NZIER recommends that the Committee include in its report commentary urging officials to prioritise engagement with overseas counterparts on the extent to which FIF tax is creditable under existing law and relevant Double Tax Agreements.

Recommendation 8

NZIER recommends the Bill be amended to allow the deferral method to be made available as an additional option for calculating FIF income for all natural persons resident in New Zealand.

Recommendation 9

NZIER recommends that the Committee signal its support in principle to amending the FIF regime so that shares in companies reincorporated offshore but still taxed in New Zealand are excluded, and encourages the Government to develop a detailed solution via the Generic Tax Policy Process for enactment next year.

Recommendation 10

NZIER recommends that the Committee recognise the wider risks of double taxation beyond the United States, and direct officials to explore options through the Generic Tax Policy Process for extending relief to taxpayers with obligations in other jurisdictions.