

Hon Peter Dunne

Minister of Revenue

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New thin capitalisation rules for foreign banks

The Government will change the thin capitalisation rules for foreign-owned banks, with the minimum prescribed percentage of equity for tax purposes increasing from 4 per cent to 6 per cent from 1 April 2012.

“The change is part of the Government’s continuing focus on ensuring that all taxpayers pay their fair share of tax,” Revenue Minister Peter Dunne says.

“The effect of these rules is to limit foreign-owned banks’ interest deductions against the New Zealand tax base.

“The increased equity percentage complements changes to the inbound thin capitalisation rules, announced in last year’s Budget, which took effect on 1 April this year.”

These changes limited the amount of debt that could be allocated to New Zealand by non-banking multinationals.

The latest change is expected to raise about \$8 million of additional tax revenue in the next fiscal year and \$31 million in each subsequent fiscal year, Mr Dunne says.

“The percentage increase is not likely to translate into increased costs for capital or borrowing, and reflects the reality of the commercial and regulatory environment banks operate in today,” Mr Dunne says.

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