Inland Revenue
Te Tari Taake

March 2025

Proposed foreign investment fund changes – Fact sheet

Following consideration of submissions on an issues paper published on 6 December 2024, on 12 March 2025 the Government announced its intention to make changes to the foreign investment fund (FIF) regime, to minimise its deterrent effect for new migrants and returning New Zealanders.

This fact sheet provides early general information of the proposal and how it could work. Detailed information will be provided on this website at introduction of the implementing Bill.

General

The FIF regime generally applies to determine the taxable income of New Zealand residents from holdings of less than 10% interests in foreign companies. The FIF regime provides a number of different methods to determine taxable income.

The Government is proposing to introduce the revenue account method for some migrants and investments. Under this method, income each year would be dividends received plus 70% of realised capital gains.

The revenue account method would apply from 1 April 2025 onward. It would be available to people who became fully tax resident in New Zealand on or after 1 April 2024, subject to them meeting other eligibility criteria. It would not be mandatory – taxpayers can use the existing methods for their FIF interests instead if they wish to do so.

Who can apply the revenue account method

Any new migrant who becomes fully tax resident (that is, not merely a transitional tax resident) on or after 1 April 2024 can use the method. This means the method can be applied by a new migrant who became a transitional resident on or after 1 April 2020.

Returning New Zealanders would also be able to use the revenue account method, but only if they have not been tax resident for a minimum number of years. This number has not yet been determined, but is likely to be less than the 10 years of non-residence required for transitional migrant status.

The revenue account method can also be used by the trustee of a trust if the principal settlor of the trust would be able to use the method in relation to the particular FIF interest.

What investments can they apply it to

For most people, the revenue account method can only apply to FIF investments in unlisted entities (which for this purpose does not include an unlisted entity whose main investment is listed entities) that they acquired before becoming New Zealand resident, or pursuant to arrangements made before they became New Zealand resident.

For people who remain subject to tax on a citizenship basis after they become New Zealand tax resident, the revenue account method can be applied to all their FIF investments.

What about investments that are sold for a loss

70% of any loss would be able to be offset against income calculated under the revenue account method, in the same or a future year.

What if the person later leaves New Zealand

If a person applies the revenue account method to their FIF interests and then ceases to be a New Zealand resident, an exit tax may apply to treat them as if they had sold their shares for their market value immediately before the loss of residence. The details of the exit tax will be published when determined.

Example: Returning NZ expat employed in tech start-up company

Bart is a 37-year-old Kiwi expat who has been living in the US for the past 8 years. He is the CTO for a tech start-up company that has managed to attract venture capital funding and has now developed its product and market to the point that the last funding round valued it at $200 million.

Bart owns 1% of the shares, acquired through the terms of an employee share scheme, for a total cost of $10,000. He also holds shares in a portfolio of US listed companies, with a cost of $50,000.

Bart is now considering returning to New Zealand, but continuing to work remotely for the company, with regular work trips to the US West Coast. He is seeking advice on how New Zealand will tax the investment in his employer.

Bart's tax liability before the changes on his employee share schemes shares

Under current rules, Bart will have no taxable income from his shares in the 2026 tax year (the year he returns to New Zealand). In the 2027 tax year, his taxable income will be 5% of the value of the shares on 1 April 2026. If there is no change to today's valuation, this will be $100,000.

Bart's marginal tax rate if he returns to New Zealand will be 39%, and so tax on this notional income will be $39,000. However, it is quite possible that the value of the company will be half, or double, what it currently is, with a proportionate effect on Bart's tax bill. This tax will be payable even though there is no cash flow from the shares. Bart will need to use his salary, or borrow, to pay the tax.

To calculate his income in the 2028 tax year, Bart will not have to get another valuation of the shares. Instead, his taxable income from the shares in the 2028 tax year will simply be 5% more than his taxable income in the 2027 year.

Bart will not be taxed on any dividends the shares might pay, nor will he be taxed on a sale of the shares.

Bart's tax liability under the revenue account method on his employee share schemes shares

Under the proposed rules, Bart will have no taxable income from his shares until he sells some of them, or they pay a dividend. If he sells some of them, he will be taxed on 70% of the gain on sale (i.e., 70% of sale proceeds less the cost of the shares sold). The cost of the shares will be the value ascribed to them at the time Bart becomes a New Zealand tax resident. Dividends will be taxed at his marginal tax rate.

Any investments Bart holds in New Zealand companies will be taxed in the usual way – that is, tax on dividends, and generally no tax on gains on sale. The taxation of any investments he holds in less than 10% interests in other foreign companies will also be taxed in the usual way – generally on 5% of the opening value each year.

Next steps

Inland Revenue will provide more information once the proposals are included in a tax Bill. Keep an eye on the Tax Policy website for any updates.

The proposed changes are expected to be included in a Bill to be introduced in the second half of 2025. The Bill will be subject to the usual select committee process including hearing public submissions.