

Hon Nicola Willis, Minister of Finance

Information Release

Taxation of transfers from overseas pension schemes – making 'scheme pays' optional for KiwiSaver providers

July 2025

Availability

This information release is available on Inland Revenue's tax policy website at:

<https://www.taxpolicy.ird.govt.nz/publications/2025/ir-emergency-response-tax-bill>

Documents in this information release

#	Reference	Type	Title	Date
1	IR2024/467	Inland Revenue Report	Taxation of transfers from overseas pension schemes – making 'scheme pays' optional for KiwiSaver providers	25/11/2024

Information withheld

Some parts of this information release would not be appropriate to release and, if requested, would be withheld under the Official Information Act 1982 (the Act). Where this is the case, the relevant sections of the Act that would apply are identified. Where information is withheld, no public interest was identified that would outweigh the reasons for withholding it.

Sections of the Act under which information was withheld:

9(2)(a) to protect the privacy of natural persons, including deceased people

Accessibility

Inland Revenue can provide an alternate version of this material if requested. Please cite this document's title, website address, or PDF file name when you email a request to

policy.webmaster@ird.govt.nz

Copyright and licensing

Cabinet material and advice to Ministers from the Inland Revenue Department and other agencies are © Crown copyright but are licensed for re-use under the Creative Commons Attribution 4.0 International (CC BY 4.0) licence (<https://creativecommons.org/licenses/by/4.0/>).





POLICY

Tax policy report: **Taxation of transfers from overseas pension schemes – making ‘scheme pays’ optional for KiwiSaver providers**

Date:	25 November 2024	Priority:	Medium
Security level:	In Confidence	Report number:	IR2024/467

Action sought

	Action sought	Deadline
Minister of Finance as Acting Minister of Revenue	Agree to recommendations Refer to Minister of Revenue	9 December 2024

Contact for telephone discussion (if required)

Name	Position	Telephone	Suggested first contact
Pamela Law	Principal Policy Advisor	s 9(2)(a)	<input type="checkbox"/>
Thomas Minot	Senior Policy Advisor	s 9(2)(a)	<input checked="" type="checkbox"/>

Taxation of transfers from overseas pension schemes – making ‘scheme pays’ optional for KiwiSaver providers

Purpose

1. This report seeks your agreement to make it optional rather than mandatory for KiwiSaver providers to offer the ‘scheme pays’ mechanism for payment of tax on transfers of foreign pension funds to New Zealand schemes, proposed in the Taxation (Annual Rates for 2024–25, Emergency Response, and Remedial Measures) Bill (‘the Bill’).
2. We are recommending this change in response to submissions on the Bill. If you agree to the change, we will recommend it to the Finance and Expenditure Committee in the Departmental Report on the Bill.
3. You have been delegated responsibility for making this policy decision as Acting Minister of Revenue, because the Minister of Revenue previously declared a conflict of interest with the relevant proposals.¹ It is for this reason that we are reporting separately to you on this matter. You will also soon receive omnibus policy reports covering recommended changes to various other proposals in the Bill.

Background

4. The Bill proposes to introduce a ‘scheme pays’ mechanism for the payment of tax on transfers of foreign pension funds to New Zealand ‘qualifying recognised overseas pension schemes’ (QROPS) and KiwiSaver schemes. Under the proposal, an individual transferring their UK pension fund to a New Zealand QROPS or their non-UK pension fund to a KiwiSaver could elect for the scheme to pay the required tax on their behalf. The scheme would pay the tax out of the transferred funds, at a flat rate of 28%.²
5. The Bill currently proposes that it be mandatory for both QROPS and KiwiSavers to offer ‘scheme pays’ on the basis that it is desirable to ensure that the mechanism, which has taxpayer favourable features, is available to a broad group of people, rather than just migrants from the United Kingdom (UK). In addition, Inland Revenue is aware of long-standing concerns that there is significant non-compliance with our foreign pensions tax rules which could be partially addressed via information reporting under ‘scheme pays’.
6. In response to the Bill, two submitters objected to a mandatory requirement for KiwiSavers to offer ‘scheme pays’. One of those submitters also objected to it being mandatory for QROPS to offer it. In their view, offering ‘scheme pays’ would impose a disproportionate compliance cost on scheme providers that receive few transfers, and providers should therefore be able to choose whether to offer the option.
7. For many years the QROPS industry has advocated for Inland Revenue to develop a solution to address a known and inherent problem with the payment of tax on

¹ Refer to the letter from the Minister of Revenue to the Minister of Finance, dated 27 August 2024: ‘Change to arrangements regarding responsibility for matters relating to the tax legislative changes for qualifying recognised overseas pension schemes’.

² Refer to IR2024/177 for a detailed explanation of the policy. Refer to IR2024/265 for the decision to change the application date of ‘scheme pays’ to 1 April 2026.

transfers of UK pension funds to QROPS. The problem is that the migrant cannot withdraw from the transferred funds to pay the tax – which can be substantial – without triggering a UK charge of up to 55%, but may have insufficient personal funds to pay the tax. The ‘scheme pays’ solution was primarily designed to address this problem and is expected to benefit the QROPS industry and affected taxpayers as a whole. Further, Inland Revenue will incur administrative costs in building and running the system necessary for ‘scheme pays’. These costs may not be justified if only a few QROPS choose to offer the service. Officials consider that it should remain mandatory for QROPS to offer ‘scheme pays’.

8. The rationale for requiring KiwiSaver providers to offer ‘scheme pays’ is somewhat different. Unlike transfers to QROPS, there are not known to be any difficulties with the payment of tax on transfers to KiwiSavers, because the KiwiSaver rules permit a withdrawal from the scheme to pay a tax liability. The benefit of extending ‘scheme pays’ to KiwiSavers would be giving individuals entering those schemes access to a convenient mechanism for paying the tax, and to the 28% flat rate, providing equity with QROPS investors. It would also improve reporting of the tax paid on these transfers. However one submitter argued that the equity rationale for requiring all KiwiSaver providers to offer ‘scheme pays’ is not valid, as some KiwiSaver providers are likely to opt in if there is enough investor demand.
9. Due to its simplicity and certainty, we expect there will be enough demand for ‘scheme pays’ that one or more KiwiSavers will choose to offer the service, and the migrants who want the service will join those KiwiSavers. In targeted and public consultation, stakeholders – who included KiwiSaver providers – did not disagree with the proposition that migrants from countries other than the UK or Australia³ might transfer their foreign pension funds to a KiwiSaver, and might benefit from access to ‘scheme pays’. Therefore we think the reasons for requiring all KiwiSaver providers to offer ‘scheme pays’ are not as decisive as for QROPS, and it would be reasonable to make it optional for them to offer the service.

Fiscal implications

10. Making it optional for KiwiSaver providers to offer ‘scheme pays’ is not expected to have a fiscal impact.

Consultation

11. The Treasury was informed of the contents of this report.

Next steps

12. If you agree to the change, officials will recommend it in the Departmental Report on the Bill.
13. Although Cabinet agreed to make it mandatory for scheme providers to offer ‘scheme pays’,⁴ officials consider that making it optional for KiwiSaver providers to offer it is a minor and technical change, because the primary target of the policy is QROPS providers. Therefore, the change does not require Cabinet approval.
14. In accordance with the 27 August 2024 delegation letter, the Minister of Revenue will continue to progress the QROPS proposals through the House together with the rest of the Bill, and you will be kept informed of this progress.

³ Australian pension funds can be transferred tax-free to KiwiSavers, so tax is not an issue for these transfers.

⁴ See CBC-24-MIN-0070, para 3.1.

Recommended action

We recommend that you:

1. **agree** to make it optional for KiwiSaver providers to offer the 'scheme pays' mechanism for payment of tax on transfers of foreign pension funds to New Zealand schemes, proposed in the Bill.

Agreed/Not agreed

2. **note** that it will still be mandatory for QROPS to offer 'scheme pays'.

Noted

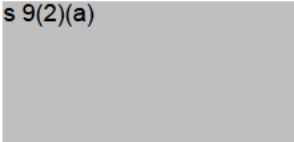
3. **note** that recommendation 1 is expected to be fiscally neutral.

Noted

4. **refer** a copy of this report to the Minister of Revenue for his information.

Referred/Not referred

s 9(2)(a)



Pamela Law

Principal Policy Advisor
Policy

Hon Nicola Willis

Minister of Finance as Acting Minister of Revenue

/ /2024