



## Information Sheet

This information sheet explains the current policy proposal included in Budget 2026. The proposal may change as the legislation moves through the parliamentary process. The information is up to date as at 28 May 2026.

# Changes to thin capitalisation rules for foreign-owned banking groups

The Government proposes to align the thin capitalisation tax rules for foreign-owned banking groups with the Reserve Bank's upcoming new prudential capital requirements. This would increase the minimum equity requirements for tax purposes (thin capitalisation percentage) for foreign-owned banking groups from 6% to:

- 12% for groups that include a domestic systemically important bank, and
- 11% for all other groups.

This alignment would protect New Zealand's tax base by limiting the amount of cross-border related-party debt a banking group can take on for tax purposes and, therefore, limiting interest deductions in New Zealand that would reduce their tax payable here.

### What are the current thin capitalisation rules?

The thin capitalisation rules aim to prevent a company with overseas owners from being loaded with debt (thinly capitalised) resulting in interest deductions, which lowers its tax to pay. For banks, the rules are designed to ensure that a foreign-owned banking group operating in New Zealand holds a minimum percentage of equity in New Zealand for tax purposes. This minimum percentage should be set at a commercial level. This protects the tax base by limiting the amount of cross-border related-party debt that a banking group can take on through holding company structures and branches.

The thin capitalisation rules for banks have historically aligned with the prudential capital requirements. Prudential capital requirements are a resilience measure that aims to ensure that banks and other financial institutions have sufficient capital in reserve to withstand shocks and avoid failure. While the thin capitalisation rules do not have to align with prudential capital requirements, these requirements are an indicator of a commercial level of equity for a banking group to hold.

### Why is this change needed?

Since the thin capitalisation percentage was last updated in 2012, prudential capital requirements have continued increasing (currently 12.5% for systemically important banks and 10.5% for other banks). Given the prudential capital requirements are set at a resident bank entity level, but the thin capitalisation threshold is set at the group level, the mismatch in thresholds creates an opportunity to increase debt in banking groups by adding it via holding companies or branches. This debt then creates higher interest deductions and lower tax payable in New Zealand.

In December 2025, the Reserve Bank announced new prudential capital requirements. The new requirement for systemically important banks is 12%, and 11% for other banks. The Government intends to align the thin capitalisation tax rules with these thresholds because they represent a commercial

benchmark. The changes would also provide for temporary changes to the requirements when the Reserve Bank adjusts its capital buffer requirements in response to market conditions.

The changes would apply from 1 April 2027.