



## 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.

# Non-resident contractors' tax exemption for aircraft asset leasing

## What are the current settings?

When a New Zealand business leases assets (such as aircraft and parts) from an overseas supplier, it typically has to withhold non-resident contractors' tax if the lease income is taxable in New Zealand. Non-resident contractors' tax does not apply to longer-term finance leases, which are treated as the sale of an asset for tax purposes.

The usual tax rate is **15%** for non-resident companies. If the overseas supplier does not register with Inland Revenue, a higher **20%** rate applies.

In practice, many overseas aircraft lessors don't engage with the New Zealand tax system. This means the **20%** rate is often used, and leases include an obligation on the lessee to cover the tax. As a result, New Zealand businesses end up bearing the full tax cost.

The withholding tax has the effect of pushing lease costs up by about **25%**, which is much higher than the ultimate tax that would normally be paid on the actual profits from these leases.<sup>1</sup>

## What is the proposed change?

The Income Tax Act 2007 would be changed so that payments for using aircraft or aircraft parts in New Zealand under a "dry lease" are no longer subject to non-resident contractors' tax.

A dry lease is an agreement providing for the use of an aircraft or aircraft parts under which the lessee is responsible for providing crew, maintenance, and insurance.

The change would also specify that this income is tax-exempt for the overseas lessors.

## Who would be affected?

The change would affect New Zealand businesses that lease aircraft and aircraft parts from non-resident suppliers from 1 April 2026.

It would not apply to the charter of an aircraft, including the crew, or to other forms of "wet" leases. It would only apply to "dry" leases, when just the aircraft or parts are provided and under which the lessee is responsible for providing crew, maintenance, and insurance.

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<sup>1</sup> Non-resident contractors' tax applies to the grossed-up amount, so an amount needs to be grossed up by 25% so that when 20% is withheld from this payment, the amount that the lessor receives is the same. For example, \$100 grossed up by 25% is \$125, and when 20% is withheld from \$125, the lessor receives the full \$100.

**Example 1: Non-resident contractors' tax exemption for aircraft leasing**

Auckland Airlines flies daily domestic services from Auckland to Great Barrier Island. They operate two aircraft, both of which are leased from a country with which New Zealand does not have a double tax agreement. Auckland Airlines employs local crew, operates the aircraft under its own air operator certificate, and is responsible for maintenance and insurance of the aircraft.

The aircraft have been leased for a period of three years, after which they will return to the supplier. This gives Auckland Airlines the flexibility to review costs and pricing at the end of the terms of the lease and, if their business is sufficiently profitable, they may lease larger aircraft in three years' time or purchase small aircraft of their own.

Prior to 1 April 2026, Auckland Airlines is liable to withhold non-resident contractors' tax on lease payments to the supplier of the aircraft. This is at a rate of 20%, the no-notification non-resident contractors' tax rate for non-resident companies. The no-notification rate is used because the non-resident supplier has not completed a tax rate notification for contractors, has no IRD number and will not engage with the New Zealand tax system because the leasing of these two aircraft is their only business dealing with New Zealand.

The non-resident provider of the aircraft has included in the lease an obligation on the lessee to cover any tax that is due. This means that, for Auckland Airlines, the cost of the lease is 25% higher than it might otherwise be. To maintain profitability, they pass most of this cost on to their customers.

Each lease payment would normally be \$10,000. This has been grossed up to \$12,500 (+25%), so that when Auckland Airlines withholds 20% (\$2,500), the non-resident provider of the aircraft still receives \$10,000.

From 1 April 2026, Auckland Airlines would no longer have to withhold non-resident contractors' tax on their lease payments, and the non-resident lessor would have received income that is exempt from tax in New Zealand.