# The Guide to: Investment Tax

NZFunds

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# Introduction

Whether you are saving for retirement, or have already retired, understanding how investment tax rates differ from personal tax rates is an important step in enabling you to make the most of your money.

In New Zealand, the primary form of tax for individuals is tax on your income. Individual income tax rates range from 10.5% to 39%. We are going to assume you know your personal tax rate.

For investors, it is important to know that you can choose to pay more or less tax depending on:

(a) What type of investment you make.

(b) What type of vehicle you hold your investment in.

In this guide we explain how four of the most commonly used investments are taxed; and explain what easy steps you can legally take to reduce your tax rate, and keep more of the returns for yourself.


1. Cash, term deposits and bonds
2. New Zealand and Australian shares
3. Global shares
4. New Zealand residential property

# Tax timeline

**Oct 2007**
PIE regime commences – top PIR
**33%**

FDR rules introduced.
Australian share rules introduced.

| | |
|---|---|
| Top marginal tax rate | 39% |
| Trust tax rate | 33% |
| Company tax rate | 33% |

**Oct 2010**
GST
**▲ 15%**

**Apr 2008**
Company tax rate and top PIR.
**▼ 30%**

**Apr 2011**
Company tax rate and top PIR.
**▼ 28%**

**Oct 2010**
Top marginal tax rate.
**▼ 33%**

Tax rate thresholds modified.

**Apr 2015**
Brightline test for residential properties introduced (must hold for two years, otherwise properties are taxable).

**Apr 2018**
Brightline period increases to five years.

**Apr 2019**
Rental loss ring-fence rules introduced (rental losses no longer able to be offset against other income).

**Mar 2021**
Property interest limitation rules introduced phasing out deductions on rentals (new builds excluded).

Brightline period increases to ten years.

**Apr 2021**
Top marginal tax rate.

▲ 39%

**Apr 2024**
Trust tax rate.

▲ 39%

# 1. Cash, term deposits and bonds

Most bank accounts in New Zealand pay a small amount of interest on cash in the account. New Zealanders know that if they invest their spare cash in a term deposit they can earn a higher rate of interest.

Term deposits require investors to lock up their money with the bank for a period of time. Lock-ups range between three months (or 90 days) and five years. Term deposits that lock you in for more than a year are similar to owning a bond. Bonds have the advantage of being able to be sold without incurring penalty interest (assuming there are buyers).

If you own cash, term deposits or bonds in your own name or in a joint account, the interest you earn is taxed at your marginal tax rate (the same tax rate as your salary), for example 39%.

If you own cash, term deposits or bonds in a family trust, the trustee tax rate is currently 33% but will shortly increase to 39% (from 1 April 2024). Depending on how much income your beneficiaries receive, their tax rates can be up to 39% as well.

If you or your trust holds cash, term deposits or bonds through a Portfolio Investment Entity (PIE)[1], then your maximum tax rate is only 28%. This means you pay up to 11% less tax on the interest you earn. PIEs which hold major bank term deposits and bank bonds are available for individuals and trusts from regulated banks and licensed investment managers like NZ Funds.

## The bottom line

You can pay less tax if you own your cash, term deposits and bonds through a PIE instead of in your own name, or in a trust. Trusts can also own PIEs.

1. A PIE is a type of managed fund that passes its taxable income out to its investors and pays tax on their behalf at their elected PIE tax rate called their Prescribed Investment Rate.

# Individuals and trusts should hold cash in PIEs to save 11% tax p.a.

| Entity | Tax rate | PIE rate | Tax saving |
|---|---|---|---|
| Individual[1] | 39% | 28% | 11% |
| Trust[2] | 33% | 28% | 5% |
| Company[3] | 28% | 0% | 0% |

1. Assumes 39% marginal tax rate.
2. The tax rate for trusts is set to increase to 39% in April 2024. Assumes trusts are non-trading and not GST registered.
3. Companies include PIE income in their annual return and are taxed at 28%.

# 2. New Zealand and Australian shares

Over the last 40 years the New Zealand share market has grown from a handful of government-owned companies to over 186 listed shares worth more than $100 billion. The New Zealand share market is also one of the highest dividend-paying markets in the world, making it ideal for retirement savings.

If you own New Zealand and most Australian shares in your own name or in a joint account, and do not trade your shares frequently, you pay no tax on capital gains (a capital gain is an increase in the share price) but you do pay tax on any dividends you receive at your marginal tax rate (the same tax rate as your salary), for example 39%.

If you own New Zealand and most Australian shares in a family trust, the trustee income tax rate is currently 33% but will shortly increase to 39% (from 1 April 2024). If you do not trade frequently, you pay no tax on capital gains but you do pay tax on any dividends received at 33% (changing to 39% on 1 April 2024).

If you own New Zealand and most Australian shares through a PIE, then under current New Zealand tax law you pay no tax on capital gains and, because the maximum PIE tax rate is 28%, need pay no additional tax on dividends assuming the dividends are fully imputed[1] (which is the case for most New Zealand dividends). PIEs which hold New Zealand and Australian shares are available for individuals and trusts from regulated banks and licensed investment managers like NZ Funds.

## The bottom line

New Zealand tax law means that you can invest in New Zealand (and most Australian) shares and pay no additional tax, irrespective of how large your capital gains are. This makes New Zealand one of the most competitive tax regimes in the world for investors.

1. Dividends become imputed if the company that pays them has paid tax on its profits. It passes this tax on to its shareholders by attaching imputation credits to the dividends it pays.

# Investment tax changes significantly depending on what type of asset you hold.

| Asset | Tax treatment | Individual[1] | Trust[2] | PIE rate |
|---|---|---|---|---|
| NZ Cash | Interest | 39% | 39% | 28% |
| NZ Bonds | Interest | 39% | 39% | 28% |
| NZ Shares[3] | Dividends only | 11% | 11% | 0% |
| Global Shares[4] | Fair dividend rate | 1.95% | 1.95% | 1.40% |
| NZ Property[5] | Residential rental property | 64% | 64% | n/a |

1. Assumes 39% marginal tax rate.
2. From 1 April 2024.
3. Assumes shares held on capital account. Additional tax payable on fully imputed dividends.
4. Fair Dividend Rate 5% income multiplied by 39% for individuals and trusts, and 28% for PIEs.
5. Assumes a residential property for rent, not for commercialise, and not a new build.

# 3. Global shares

Under New Zealand tax law an investment in global shares has its own unique tax calculation. Most global shares are taxed based on a total return every year (dividends and capital gains) of 5% of their market value on 1 April each year[1]. This is assumed irrespective of how high the actual return was. The only tax that needs to be paid is calculated by multiplying the deemed total return of 5% by your marginal tax rate.

For example investors on a marginal tax rate of 39% pay: 5% × 39% = 1.95% tax on the value of their investment, so for every $100 dollars invested the full tax paid is $1.95 p.a. What is more, if your global share portfolio makes a loss in a year, there is no tax to pay that year.

The tax calculation for global shares is the same for an individual as it is for a trust. If you own global shares in your own name or in your family trust, then the maximum tax rate you might need to pay is 39%. In that case your tax rate on global shares is: 5% × 39% = 1.95% p.a. as described in the example above.

However, if you own global shares through a PIE, then your maximum PIE tax rate is only 28%. In that case your tax rate on global shares is: 5% × 28% = 1.40% p.a. PIEs which hold global shares are available for individuals and trusts from regulated banks and investment managers like NZ Funds.

## The bottom line

New Zealand tax law is one of the most competitive in the world when it comes to taxing the income from global shares. For most investors, their taxable income is capped at 5% of the value of their investment in any tax year. This means that no matter how large their gains are, the maximum tax payable is 1.95% of the value of an investment if you hold the shares in your own name, or 1.40% if you hold them through a PIE.

1. This is the Fair Dividend Rate method. Other methods for calculating the taxable income from global shares are available. In some circumstances you may be required to use one of these other methods. You may also choose to use one of the other methods. If you do, additional rules may apply.

You pay almost no tax on returns earned from owning New Zealand shares.

Owning global shares is also a highly tax-efficient way to invest.

# 4. New Zealand residential property

New Zealand tax law has traditionally been advantageous to homeowners and property investors alike. Both homeowners and many long-term property investors paid no tax on capital gains. Property investors were also able to deduct expenses such as insurance, rates and mortgage interest from their rental income, resulting in many investors having a loss for tax purposes.

Currently the ability for property investors to deduct mortgage interest when calculating taxable income is being progressively removed so that by 1 April 2026 property investors will no longer be able to claim this as a tax deduction.

Without the tax deductibility of mortgage interest payments property investors need to pay tax on a much higher amount (virtually all the rental income earned on the property) potentially at their marginal tax rate (for example 39%). They also have to meet any unpaid mortgage costs out of other funds. Those funds often come from earnings elsewhere, for example an investor's salary or income from investments, both of which have already been taxed. This can make residential property investing far less tax efficient.

## The bottom line

The tax treatment of residential property is complex and recent tax changes have made it less attractive. Residential property tax rules are expected to change again in the future.

If you are considering an investment in property we recommend you seek expert property tax advice. PIE Tax Funds are not available for residential property.

# Residential property rental (50/50 debt/equity structure).[1]

| | | |
|---|---|---|
| Property value | | $1,000,000 |
| Mortgage amount | | $500,000 |
| Equity amount | | $500,000 |
| Interest @ 6% p.a. on $500,000 | | $30,000 |
| Rent @ 3% p.a. on $1,000,000 | | $30,000 |
| Taxable rental income after non-deductibility | (A) | $30,000 |
| Tax payable on rental income with a 39% tax rate | (B) | ($11,700) |
| Surplus cashflow from rental income | | $0 |
| Additional income required for tax payable | | $19,180 |
| Tax payable on additional income | (C) | ($7,480) |
| Tax payable on rental and additional income | (D) = (B) + (C) | ($19,180) |
| Effective tax rate on rental income | (D) ÷ (A) | 64% |

1. Notes to calculation:
   - Assumes 39% marginal tax rate.
   - Does not include capital gains.
   - Does not include either capex or insurance costs.
   - Assumes 100% non-deductibility of mortgage interest (currently 25%; 50% in 2024; 75% in 2025; 100% in 2026).
   - Assumes property is not a new build (i.e. developer exemption does not apply).

# If you have any questions about investment tax or making the most out of your retirement savings please let us know.


Auckland
auckland@nzfunds.co.nz
09 377 2277

Level 16, 21 Queen Street
Auckland 1010

Timaru
timaru@nzfunds.co.nz
03 683 1989

19 Church Street
Timaru 7940

Wellington
wellington@nzfunds.co.nz
04 473 7701

Level 3, Central on Midland Park
40 Johnston Street
Wellington 6140

Dunedin
dunedin@nzfunds.co.nz
03 477 4647

Level 2, Bracken Court
480 Moray Place
Dunedin 9016

Christchurch
christchurch@nzfunds.co.nz
03 366 9088

Level 2, 112 Cashel Street
Christchurch 8011

Invercargill
invercargill@nzfunds.co.nz
03 218 2895

Level 1, 46 Deveron Street
Invercargill 9810



www.nzfunds.co.nz

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