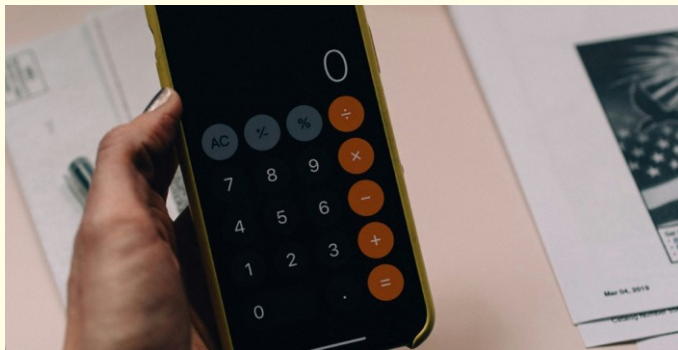




Budget 2026 projects a tight short term and cautiously optimistic medium term, forecasting modest economic growth, easing inflation, rising interest rates, returning to a small surplus in 2028/29. Business confidence is shadowed by continuing geopolitical uncertainty and associated oil supply shock.

By now you have seen extensive budget coverage on measures relating to infrastructure, health, education, and defence. This alert focuses on coming tax changes, and implications for business, investors and taxpayers.



The first legislation giving effect to Budget 2026 has been introduced into the House, covering:

- Reducing the cap for gifts qualifying for donation tax credits to \$100,000 or the donor's taxable income, whichever is lower.
- Outstanding shareholder loan balances will be deemed taxable income six months after a company is removed from the Companies Register (applying to removals on or after 4 December 2025).
- Simplified family scheme income calculations from the 2027–28 income year, and Working for Families residence requirements
- Non-resident contractors' tax exemptions for the dry leasing of aircraft and parts.

Further tax changes have also been announced, with legislation expected to be introduced into the House prior to the election. Timing may not allow all of these to be passed into legislation prior to the election. An incoming government will need to pass this legislation.

FBT and motor vehicles

The Government proposes simpler FBT rules for private use of motor vehicles, applying from 1 April 2027, shrinking compliance costs for employers. Currently businesses pay fringe benefit tax based on the number of days a vehicle is available for an employee's private use. This shifts to how a vehicle is categorised, a new system of six categories delineating various degrees of business vs private use.

Rules around vehicle branding, permissible private use and what constitutes a work vehicle are changing. Logbooks won't be needed. And FBT calculation methods will change, based on different fuel types.



Foreign investment tax reforms

Changes applying from 1 April 2026 aim to attract skilled workers to New Zealand and lower compliance costs for existing taxpayers, especially smaller investors:

- The Revenue Account Method (RAM) introduced recently for migrants and returning residents, will extend to all New Zealand tax residents. RAM is a concessionary method taxing realised gains on unlisted foreign shares, applicable gains on disposals of qualifying FIF interests discounted by 30%. In addition, some tax residents subject to double tax in another country (due to citizenship or a right to live and work in that country) may be able to apply RAM for their listed shares.
- More taxpayers may apply the attributable FIF income (AFI) method for calculating FIF income, where taxpayers are only taxed on dividends received from their FIF interest.
- At present New Zealanders become subject to the Foreign Investment Fund (FIF) tax regime when their foreign investments total \$50,000 or more. This threshold is doubling, easing compliance costs for some taxpayers.
- Eligibility rules for a 10-year FIF exemption for New Zealand companies migrating offshore and listing on an offshore exchange will be clarified

The exact shape of these changes depends on detail in the follow-up legislation.

Financial arrangements (FA)

FA tax rules affect a range of taxpayers. Some migrants incur tax liability when foreign exchange rate movements create unrealised exchange rate gains and losses. This will lessen with new rules allowing income to be calculated in a foreign currency. Common, low-risk foreign currency arrangements including personal bank accounts, mortgages on private homes and credit cards with foreign banks will be excluded from the rules. A new tax calculation method for certain investments should help people coming to New Zealand on Active Investor Plus Visas. Most of these changes apply from 1 April 2027, with the changes for Active Investor Plus Visa holders backdated to 1 April 2025.

Non-resident contractors' tax (NRCT)

From 1 April 2027, businesses' compliance costs for working with non-resident contractors decrease as the exemption threshold for applying NRCT to contract payments increases from \$15,000 to \$75,000, low-risk, non-resident contractors are excluded, a single-payer view is introduced, and associated administration is simplified.

Financial institution levy

A new levy on institutions including banks, non-bank deposit takers and insurers is being introduced to help fund the operations of the Reserve Bank. Consultation on this is expected between July and October this year. It's moot whether institutions will pass this on to taxpayers as fees and administration charges.

Research and development tax incentive (RDTI)

From the 2027-28 income year, taxpayers will be able to claim the RDTI quarterly instead of only when filing their tax return, so businesses can receive the tax credit sooner. Inland Revenue will have discretion to accept late filed RDTI returns and allow amendment of minor administrative errors in returns. Other changes cut the cap on non-administrative internal software development spend from \$25m to \$3m a year, and expand the range of R&D expenditure mining businesses can claim.

Charities and Not-for-profits (NFP)



Various reforms in this sector are proposed, with more detail known when the legislation is introduced. NFPs will be able to earn net income of up to \$10,000 without paying tax, up from \$1,000, with membership subscriptions and levies remaining non-taxable. From the 2027-28 income year, unless specifically requested by Inland Revenue, NFPs will not be required to file a tax return, lowering compliance costs for community groups.

Tax exemptions for non-resident charities will be removed and the amount of income trusts can allocate to tax exempt beneficiaries will be limited.

Tax debt

Inland Revenue will receive \$15m per year for 4 years to address outstanding tax debt. Talk to us about ways to manage any accumulating tax debt.