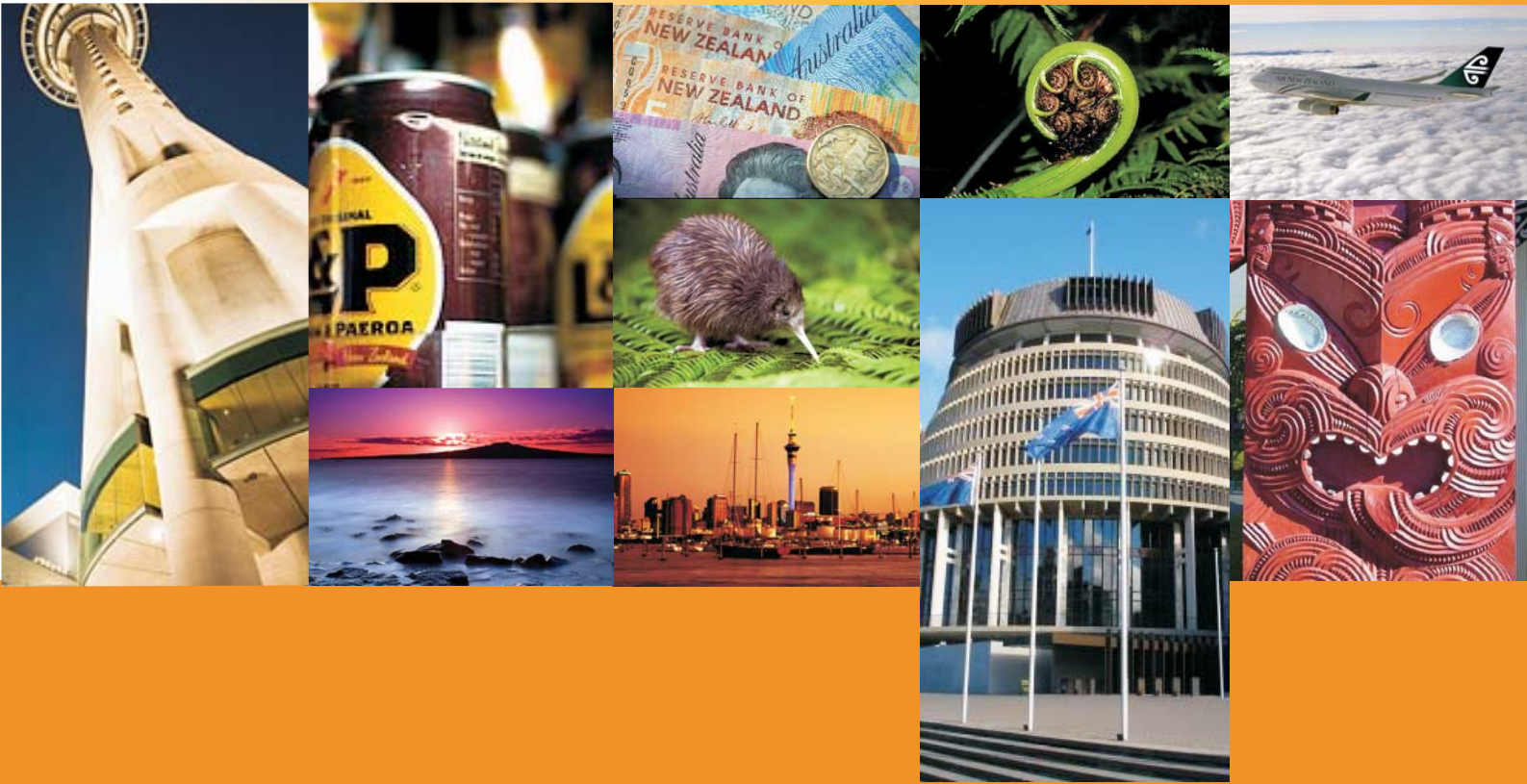




GLOBAL PRESENCE - LOCAL EXCELLENCE

Asia-Pacific Region



Doing Business in

New Zealand

May 2011



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Doing Business in New Zealand

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Introduction

This guide is written for companies and individuals interested in doing business in New Zealand. It outlines key facts and figures on New Zealand's economy, business infrastructure, laws and taxation. This information contained herein is for guidance only and no responsibility for loss from action taken based on any material herein can be accepted. It is recommended readers obtain further information and professional advice prior to making any decision.

About JHI

JHI is a flourishing worldwide network of approximately 130 member firms in 55 countries. The largest association of its kind, JHI exists to enhance the ability of member firms and their clients to drive business locally and internationally through a variety of distinctive programs and services.

Its members are respected leaders, offering a broad range of accounting, auditing and management consultancy services in every business sector. They play key roles in setting the course for the profession. This extends to JHI members who serve in leading positions with worldwide bodies such as the Forum of Firms, an organization of international firms that perform audits of financial statements that are, or may be, used across national borders. Potential new members are subject to a rigorous selection process based on criteria including the quality of practice, reputation and geographical location.



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JHI in New Zealand

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Doing Business in New Zealand



Key Facts

Population: 4,390,000
(2010 estimate)
Currency: New Zealand dollar

Dialling Code: +64
Language: English, Maori, New Zealand sign language
Fiscal Year: 1 Apr - 31 Mar

Time Zone: NZST (UTC + 12)
NZDT (UTC + 13) Sept-Apr

Political Overview

New Zealand is a singular state; as such the New Zealand parliament has one chamber, the House of Representatives. The country is a constitutional monarchy; with Queen Elizabeth II of England as the head of state.

The Constitution Act 1986 is the principal formal document of the country's constitutional structure. The constitutional structure is not codified; it consists in convention and in various statutes.

The Governor-General represents the Queen, and discharges the Crown's prerogative powers. Members of parliament are elected under Mixed Member Proportional representation (MMP). Seats in parliament are allocated in proportion to the popular vote for the political parties. The New Zealand parliament also has seven seats reserved for the representation of the New Zealand Maori population.

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Legal and Judicial System

The legal system is based on the English common law system, in which case law and statute law provide the basis of legal decisions. Court houses are in most districts, and there is an effective small claims procedure. The supreme court of New Zealand has recently replaced the Judicial Committee of the Privy Council in England as the highest appeal court.

As the country is a singular state there is no federal court system, nor individual legal jurisdictions within the country.

New Zealand is unique in that one cannot sue for personal injury, which is the prerogative of the government. Accident and injury cases are covered by the Accident Compensation Corporation (ACC). This is a state, employer and employee funded program which pays compensation and medical expenses related to injury and accident.

Economy

The Economy in New Zealand is a Western-style market economy dominated by its service sector (68.8% of GDP) although the agricultural sector accounts for 24% of its exports.

New Zealand is a major exporter of dairy and agricultural products including milk powder, milk solids and meats.

The recession has impacted New Zealand over the last 2 years. On an annual basis GDP increased by 0.7% for the year ended 30 June 2010. This was punctuated by the 'technical end' of the recession in the quarter ended on 30 June 2010 during which GDP grew by 0.2%, heralding the first quarter of growth.

Primary sector exports; forestry, fishing and mining grew by 0.6%. Real estate and business services increased

by 0.9% and communications decreased by 2.6% in the quarter to 30 June 2010.

The household labour force survey for June 2010 showed a seasonally adjusted unemployment rate of 6.8%.

The Official Cash Rate (OCR) has been relatively low and is currently 3% from the 27th of January 2010. In its 27th January 2010 media release the Governor of the Reserve Bank Dr Alan Bollard commented that the bank intends to keep the OCR unchanged until the later part of 2011.

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Taxation in New Zealand

Taxation in New Zealand is collected at a national level by the Inland Revenue Department (IRD) on behalf of the Government of New Zealand. National taxes are

levied on personal and business income, as well as on the supply of goods and services.

Company Tax

Companies in New Zealand pay income tax on their net profit earned at a rate of 30%. This was previously levied at the rate of 33% up to the 2008 income tax year. Payments are made in three installments through the year. These are known as provisional tax payments. At the end of the year the company files a tax return and any under or overpayment is then calculated. The current company tax rate for 2011 is 28%.

It is possible for companies to carry forward losses if certain shareholder continuity tests are satisfied. It is not possible to reduce prior year income with current year losses. A fixed tax year end of the 31st March exists, however an application can be made to vary this in limited circumstances.

Individuals

New Zealand residents are liable for tax on their worldwide taxable income.

Income tax varies dependent on income levels in any specific tax year (personal tax years run from 1st April to 31st March). Individual tax rates for 2010/11 are:

income	Tax Rate
\$0 - \$14,000	10.5%
\$14,001 - \$48,000	17.5%
\$48,001 - \$70,000	30%
Over \$70,000	33%

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In most cases employers deduct the relevant amount of income tax from salary and wages prior to these being paid to the individual. This system is known as Pay-as-you-earn, or PAYE. If an individual does not have an IRD number the employer will deduct tax at the non notification rate of 45%.

All employees pay an earner's levy to cover the cost of non-work related injuries. It is collected by Inland Revenue on behalf of the Accident Compensation Corporation (ACC). The levy is 2% for the period 1st April 2010 to the 30th September 2010 and 2.04% for the period from 1st October 2010. It is payable on income up to \$110,00 and is an addition to the income tax rates above.

Capital Gains Tax

There is currently no capital gains tax in New Zealand, although certain "gains" such as profits on the sale of related party transactions can be deemed to be income.

Capital Allowances

The prime cost method or diminishing value depreciation rate is available to taxpayers. Prime cost is straight line deduction method while the later is a reducing balance. The effective life used in these two methods is

determined by the Inland Revenue Department. Assets under \$500 can be written off against profits in the current year.

Goods & Services Tax (GST)

GST is an indirect tax introduced in New Zealand in 1986. Most products or services sold in New Zealand incur GST at a rate of 15%, from 1st October 2010 and was previously 12.5%. The main exceptions are financial services (eg banking and life insurance) and the export of goods and services overseas.

All businesses are required to register for GST once their turnover exceeds (or is likely to exceed) \$60,000 per

annum. Once registered, businesses charge GST on all goods and services they supply and can reclaim any GST they have been charged on goods and services they have purchased.

GST returns must be filled periodically with the Inland Revenue Department on either a one, two or six monthly basis. The return can be completed on a cash, invoice or hybrid basis.

Dividend Distribution Tax

The imputation system exists to avoid double taxation of shareholders. A company operates an imputation credit account which keeps a record of taxation paid by the company. Dividends must be imputed at a rate of 33%. Effectively a notional tax of 30% is attached to dividends

referred to as imputation credits and a further 3% dividend withholding tax is paid to the Inland Revenue Department. The dividend is grossed up by the individual shareholder and forms part of their assessable income with an offset for the attached tax credits.

Fringe Benefits Tax (FBT)

FBT is a tax applied to non cash benefits provided to employees. It is imposed solely on the employer. Rates vary from 12.99% to 55.04% depending on the level of employee remuneration received including benefits.

FBT returns can be filed either quarterly or annually with Inland Revenue depending on the methodology adopted.

Losses

Losses incurred from business activities may be offset against other income derived in the same income year. Taxpayers are not able to claim deductions for net capital losses. Unclaimed losses are carried forward and claimed against future profits, subject to continuity of shareholding for corporate tax payers.

Previously where a company was an LAQC, losses were attributed to the shareholders based on their percentage

of shareholding in the company. As from 1st April 2011, LAQC companies will no longer be able to attribute losses to shareholders. Instead a new look through company (LTC) will be introduced where the owners of the LTC will pay tax on the company profits which will be assessed to the shareholders but will also be able to offset a share of the company losses.

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Foreign Investment

New Zealand welcomes the positive contribution of foreign investment to the economic and social well-being of New Zealanders. New Zealand's regulations governing foreign investment are liberal by international standards as New Zealand has decided to maintain targeted foreign investment restrictions in only a few areas of critical interest.

Overseas investments in New Zealand assets are screened only if they are defined as sensitive within the Overseas Investment Act 2005 (the Act). Three broad classes of asset are currently defined as sensitive within the Act:

- Acquisition of a 25% or greater ownership interest in business assets valued at over \$100 million
- All fishing quota investments
- Investment in sensitive land as defined in Schedule 1 of the Act. Examples of sensitive land could

include rural land over five hectares or land bordering or containing foreshore, seabed, river, or the bed of a lake. Most urban land is not screened unless defined as sensitive for other reasons. A full list of sensitive assets is defined in the Act.

Investors must pass an investor test that considers character, business acumen and level of financial commitment prior to a transaction becoming unconditional. Overseas investors wishing to purchase sensitive land must either intend to reside permanently in New Zealand or demonstrate that the investment will benefit New Zealand.

There are no restrictions on the movement of funds into or out of New Zealand, or on repatriation of profits. No additional performance measures are imposed on foreign-owned enterprises.

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Immigration to New Zealand

Health and character assessments apply to all visa applications. Australian citizens are free to enter and

work in New Zealand without a visa. Some Pacific Island Nations have individual agreements for their citizens.

Business Owner

It is not necessary for a business owner to be either a citizen or a resident within New Zealand in order to operate a business here. You may register and start a company in New Zealand without ever having visited.

Company's owned by overseas shareholder are subjected to audit. If the shareholder(s) are companies, the financial statements will be filed with the New

Zealand Companies Office. Any company registered in New Zealand, or Branch of a foreign company registered in New Zealand is subject to New Zealand taxation.

Should you choose to operate a business here as a private individual or in partnership; you will be taxed according to the double taxation agreement with your country of residence.

Investor

There are two options available for investors to gain residency in New Zealand which are shown below:

Investor Plus – there are no employment or language requirements for this category, the Investor must invest a minimum of \$10million in New Zealand for the period of three years. There are requirements regarding the period of time the Investor must be in residence in New Zealand in order to be eligible for this visa.

Investor – Must be 66 years of age or younger, have a minimum of three years business experience, invest

\$1.5million in New Zealand for the period of 4 years and have \$1million in settlement money to pay for the costs of their re-settlement here. The class of migrant must also satisfy an English language requirement, and members of the Investor's family who choose to relocate to New Zealand will also be required to learn English. The Investor will need to maintain his or her residence in this country for a minimum number of days per annum.

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Skilled Workers

Skilled migrants are aged between 20 and 55 years of age. Migrants must pass English language assessments as part of the application process. Applications are graded on a 'points' basis. Those who have a high score are automatically granted entry visas.

Other applicants whose points exceed the minimum entry threshold are put in a pool from which visas are also granted.

Family

There are a number of migration options for fiance(e)s, partners, children, parents and other family members of New Zealand citizens and New Zealand permanent residents.

Partner – If your partner is a New Zealand citizen or resident they can sponsor your entry. You will need to have been in a relationship for at least 12 months and pass the health and character assessments.

Parent – As a parent of a New Zealand resident or citizen your entry can be sponsored by your child or children. To be eligible you need to provide evidence that the

majority of your family lives in New Zealand. Your spouse and dependent children may also be eligible but must be included in your application if you want them to come here too.

Child – Normally, a child is classified as a person under the age of 24, without dependents who is dependent upon their parent(s) for financial support. To be eligible, children must be declared upon their parents' application forms for NZ citizenship or residency. Children, who are undeclared on their parent(s) application form, may not be eligible at a later date.

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Establishing a business in New Zealand

Introduction

The main forms of business enterprise in New Zealand may be operated by an individual, partnership, a trust, a company, a joint venture or a branch of a foreign company. Each type has different legal and taxation implications.

A foreign investor may use any of these structures to conduct business in New Zealand. Entities will need to register for an IRD number and may also be required to register for the Goods and Service Tax (GST).

Sole traders and Partnerships

A sole trader is the simplest business to establish as it is owned and run by one person, who may trade under their own name. All the decisions may be made by one person; however they are also personally liable for all debts. A sole trader may also employ other people. The profit or loss is included in the individual's tax return and taxed at their marginal rate.

Partnerships are a common arrangement, particularly in fields such as law and accounting. A partnership is a simple and relatively cheap business structure to

establish and is created through a formal agreement (a written partnership deed/agreement is recommended).

A partnership has the advantage of flexibility and confidentiality, as they are not required to make public disclosures. Each partner is taxed separately on the income they received, at their marginal rate. All partners are jointly and severally liable for the debt of the partnership and have unlimited liability.

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Trusts

Trusts are very common in New Zealand and are mainly used for asset protection purposes. Trusts can be used for trading purposes but must be careful not to be seen as tax avoidance. Trustees can be held personally liable for all trust debts subject to any indemnities under the trust deed. There are possible tax advantages by utilising the beneficiaries lower marginal tax rates. There is also

scope for the trust to be a majority shareholder in a trading company and receive imputed dividends.

The profits in a trust maybe distributed to beneficiaries and taxed at their individual marginal tax rates otherwise any profits remaining in the trust will be taxed at 33%.

Company

A company is the most common business structure in New Zealand; it is a separate legal entity and must be registered with the New Zealand Companies Office. A company is taxed at 28% and provides limited liability from unsecured creditors, however there are significant compliance costs such as meeting your legal obligations as outlined in the Companies Act 1993.

As an internationally recognised business structure, the limited liability company structure enjoys greater credibility and a more professional image in the marketplace than the sole trader option. This is why many businesses in New Zealand start as sole traders, but upgrade to the company status once they become established.



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Joint Venture

Foreign investors may enter into joint venture agreements with New Zealand entities to carry out commercial activities. This means they can avoid the need to incorporate a New Zealand subsidiary. A joint venture is commonly used when the parties intend to undertake one venture as opposed to carrying on a continuous business.

A joint venture is similar to a partnership but does not file a separate income tax return. The joint venture is governed by the terms of the agreement between the parties. Joint ventures not engaged in a joint undertaking for a common profit are only liable for their proportionate share of liabilities incurred by the joint venture.

Limited Liability Partnership

In May 2008 New Zealand introduced the Limited Partnerships Act 2008. The primary objective of the introduction of the Limited Partnership regime is to facilitate sustainable growth in New Zealand's venture capital and private equity industries.

Limited partnerships are a form of partnership involving general partners, (who are liable for all the debts and

liabilities of the partnership) and limited partners (who are liable to the extent of their capital contribution to the partnership). Each partner is taxed separately on the income they received, at their marginal rate. A limited Liability Partnership must be registered with the New Zealand Companies Office.