Offshore share investments

Understanding how the Foreign Investment Fund regime might apply to your investments

April 2025

The key concepts

The foreign investment fund ('FIF') rules apply to offshore equity investments held by New Zealand residents.

A FIF includes:

- a share in a foreign company, including those held through share investing platforms such as Sharesies and Hatch;
- units in foreign unit trusts or mutual funds;
- some interests in foreign superannuation schemes or retirement plans; and
- an entitlement to benefit from a life insurance policy issued by a non-resident insurer (typically only life insurance policies with a savings component are included in these rules).

The FIF rules impose tax on the underlying income that is derived from, or accumulated in, such investments. This is regardless of whether you receive cash from the investment, such as a dividend or sale proceeds.

Exclusions apply for people with small amounts invested in FIFs and for certain investments (e.g. certain Australian resident companies listed on the ASX).

Note: The information contained in this document applies to New Zealand tax resident individuals whose shareholdings in foreign companies represent an interest of less than 10% in the company. If you have significant shareholdings in a foreign company, you may be subject to the rules applying to non-portfolio shareholdings or Controlled Foreign Companies (CFCs).

Tax impact of investing offshore

New Zealand residents with investments in overseas shares need to consider their tax position each year. The timing of transactions, particularly around 31 March each year, can also have a significant impact on your tax position.

Methods of calculating FIF income

The fair dividend rate (FDR) method

The FIF rules apply the Fair Dividend Rate method ('FDR method') as the default method of calculating income from your FIF investments.

Broadly, the FDR method calculates taxable income from a FIF as 5% of the market value of a New Zealand resident's offshore shares held on 1 April each year.

Purchases and sales during the year

Generally, only shares held at the start of an income year are included in the FDR calculation. If shares are purchased during the year, they are taxable from the next 1 April.

Conversely, if shares are sold during the year, you remain taxable on the full 5% of the opening market value for that year.

If you have foreign shares that are both purchased and sold during a tax year, you become subject to the "quick sale" rules. The quick sale rules are designed to prevent investors avoiding tax on foreign shares by purchasing them after 1 April and selling before 31 March in any tax year.

The amount taxed in relation to these quick sale shares is the lower of:

- 5% of the cost of the quick sale shares; and
- the actual gain made on the quick sale shares.

Dividends and foreign withholding tax

Dividends received from foreign shares that are subject to the FDR method are not subject to New Zealand income tax. This is because the 5% FDR calculation is the total income from the shareholding.

Foreign withholding tax deducted from these dividends is still available as a foreign tax credit.

Similarly, if you make a gain on disposal of foreign shares that are subject to the FDR rules, you are not separately taxed on this gain. Losses are not deductible either.

Comparative value (CV) method

An individual holding foreign shares may opt to pay tax on the actual return using the Comparative Value method ('CV method').

This method taxes the total return from the foreign shares, i.e. the unrealised increase in value, realised gains and dividends. The CV method means you will not pay any tax if your foreign shares make a loss, but it does not allow you to claim a deduction for a loss.

If you choose to use the CV method for any FIF investment, you must use it for all FIF investments for that tax year. You cannot choose to use the CV method for some foreign shares, and the FDR method for others.

You would normally elect to use the CV method for a tax year if your total return on all FIF investments is less than 5% of the market value of foreign shares held on 1 April.

This option is also available for foreign shares held by a family trust.

Other methods

The FDR and CV methods discussed above are the most common methods of calculating FIF income. Other methods are available in specific circumstances.

People exempt from the FIF regime

Non-residents and transitional residents

You are not liable to return income under the FIF regime if you are a non- resident or transitional resident at all times during the income year.

$50,000 threshold

An individual investor does not have income under the FIF regime if the cost of the FIF interests[1] they hold is $50,000 or less at all times during an income year. This concession is only available to natural persons, and does not apply to the trustee of a family trust or a company.

It should be noted that if the $50,000 threshold is exceeded during an income year, all FIF interests become subject to the FIF regime for that income year, not only the shares in excess of that threshold.

Shares exempt from the FIF regime

Overview of exemptions

There are several exemptions from the FIF regime for specific investments. The most important of these are the following:

- shares in certain listed Australian companies (see discussion below);
- most foreign superannuation schemes;
- shares in a company that is resident in a grey list country[2] held by a natural person under an employee share plan where there are restrictions on the sale of the shares.

Any shares excluded from the FIF regime by these exemptions are also excluded from the calculation of the $50,000 threshold discussed above.

Exempt Australian shares

Shares (not being stapled securities) in an Australian company are exempt from the FIF regime if the company:

- is resident in Australia, at all times during the income year, and not treated under a double tax agreement between Australia and another country as being resident in a country other than Australia or New Zealand;
- has shares included in an index that is an approved index under the ASX Market Rules made under Chapter 7 of the Corporations Act 2001 (Aust), tested at the beginning of the income year or when shares in the company are first acquired; and
- is required under Australian income tax legislation to maintain a franking account.

Shares that qualify for this exemption are not subject to the FIF regime.
Instead, you would be taxed on dividends received; and, if you hold the shares on revenue account, any realised gains/losses on disposal.

Inland Revenue publishes a list of shares that it considers meets these requirements. Refer to www.ird.govt.nz.

Superannuation and pension schemes

Most superannuation schemes are now taxed at the time of withdrawal from the scheme.

Some schemes are still taxed under the FIF regime, namely those that were acquired while an individual was a New Zealand tax resident, or where the individual has previously returned income of the superannuation scheme under the FIF regime and elects to continue to do so.

1.The threshold applies to the aggregate cost of all FIF interests. This means you need to consider all investments that might be subject to the FIF regime, including foreign shares, foreign superannuation schemes or retirement plans and life insurance policies issued by a non-resident life insurer.

2.The grey list is made up of Australia, Canada, Germany, Japan, UK, US, Norway and Spain.

Approach

The following questions will help you to establish whether you need to return income under the foreign investment fund ('FIF') rules.

1. Are you a non-resident, or transitional resident, for New Zealand tax purposes?

If so, the FIF rules do not apply to you. If you become tax resident, or cease to be a transitional resident, these rules will start to apply to you.

2. Do you hold shares in foreign companies, an interest in foreign superannuation funds, or life insurance policies issued by a non-resident life insurer?

If you answer no to this question, the information in this document does not apply to you.

If you do hold such investments, these might be subject to the FIF regime. This document focuses on portfolio investments (i.e. holdings of less than 10%) in shares in foreign companies.

3. Do any of the specific exemptions apply to you or your investments?

If an exemption applies, the FIF rules will not apply, but you will be subject to tax on the dividends received from your foreign shares and on a foreign superannuation withdrawal or transfer to a New Zealand or Australian superannuation scheme.

If the FIF rules apply to you and your investments, you will need to determine which calculation method to use. The default method for foreign shares is the fair dividend rate (FDR) method and is discussed in this document.

Example

Take for example, a New Zealand tax resident who:

- Acquires shares in USCo with a cost of $40,000 on 1 July 2023
- Acquires shares in UKCo with a cost of $20,000 on 20 March 2025
- Sells all shares on 30 April 2025

Application of the FIF regime

March 2023

The USCo shares are under the $50,000 threshold. So the individual is not required to calculate FIF income and is subject to tax on any dividends received.

March 2025

The acquisition of the UKCo shares causes the individual to exceed that threshold on 20 March 2025. Therefore, the individual is subject to the FIF rules for the income year to 31 March 2025. FIF income for the 2025 income year, calculated under the FDR method, would be 5% times the market value of the USCo shares on 1 April 2024. As the shares in UKCo were not held on 1 April 2024, the FIF income calculated on those shares is zero.

March 2026

FIF income for the 2026 income year, calculated under the FDR method, would be 5% times the market value of the USCo and UKCo shares on 1 April 2025.

The taxable income is not reduced even though the shares were sold at the end of the first month in the income year.

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