
Doing Business in New Zealand

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Preface

This paper was prepared by BKR Walker Wayland Limited, Chartered Accountants, Auckland, New Zealand. It was written to provide an overview in summary of the business environment, forms of business entities, finance, taxation, and audit and accounting practices in New Zealand.

This paper sets down a broad summary of the prominent features of the topics discussed. These notes are not comprehensive and, accordingly, should not be used as a substitute for detailed advice. Companies conducting or planning to conduct business in New Zealand are advised to obtain detailed information from experienced professionals.

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1. General Information

1.1 Geography and Climate

- New Zealand lies in the south-west section of the Pacific, between the Equator and the South Pole. It is made up of two principal islands (North Island and South Island), the total land area of 26.9 million hectares being comparable with that of the United Kingdom or Japan.
- New Zealand has a great variety of scenic attractions much of which is unspoiled.
- Forests still cover one quarter of the total land area.
- Climate is temperate with a sunshine average of 2,000 hours per annum.
- Temperature variations for the North Island 8-10 C between summer and winter, whereas wider variations are recorded in the interior of the South Island.
- The temperature rarely exceeds 30 C or falls more than a few degrees below freezing.

1.2 History

- First discovered by the Dutch navigator Abel Tasman in 1642.
- The country was already inhabited by Maoris who had migrated from Polynesia.
- Colonisation began in earnest in 1825.
- Series of wars between the colonists and the Maoris declined by 1870.
- Conflicts centred around land ownership.
- Land rights and the relationship of the Maori people to their ancestral lands remain important issues today.

1.3 Government

Central Government

- Parliamentary democracy.
- One legislative body, the House of Representatives.
- The executive consists of the Prime Minister and the Cabinet.
- Elections are held every three years.

Local Government

- A number of territorial local authorities and several regional councils.
- Elections are held regularly, and in general, local issues and concerns are the major focus of the elections.

1.4 Population

New Zealand's population is small:

In 2005, 4.0 million. Seventy-four percent in the North Island, which includes the capital city Wellington. The population is highly urbanized.

1.5 Official Language

Two official languages English and Maori. English is the predominant spoken language.

2. Business Environment

2.1 Economic Conditions

- Growth appears to be relatively steady, output rising annually by approximately 2.5%.
- Unemployment at about 4.0% of the labour force.

2.2 Foreign Investment

- Few restrictions on investment in New Zealand including the free flow of funds for payment, remittance of earnings on capital or the repatriation of capital and export receipts may be held offshore with no restriction.
- New Zealand welcomes overseas investment. A minimal level of controls over 'significant' overseas investment are maintained.

2.3 Import and Export Restrictions

Tariffs

In line with the General Agreement for Tariff and Trade (GATT) the vast bulk of imports are tariff free.

2.4 Labour Force and Relations

- Labour force of about 1.47 million – considered well educated and trained.
- Standard work week is 35 to 40 hours.
- New Zealand is 12 hours ahead of Greenwich Mean Time (GMT).

2.5 Land and Buildings

Few restrictions placed on the purchase of land by overseas interests.

Commercial, Industrial, and Residential Land

Few restrictions against the purchase of land for commercial, industrial, and residential purposes.

3. Business Entities

3.1 Forms of Business Entities

Principal forms of business entity.

- Company
- Branch of a foreign corporation
- Subsidiaries
- Partnership
- Sole proprietorship
- Trusts

3.2 Company

- Able to issue shares as laid down in the Companies Act 1993.
- Listing on the Stock Exchange, a company must satisfy certain listing criteria (e.g., spread of shareholders and dollar value or issued capital).
- A privately held company is frequently used by foreign companies interested in establishing business operations or wishing to participate in joint ventures with New Zealand companies. A privately held company 25% or more owned by non residents, must be audited.

3.3 Formation Procedures

The procedures required to incorporate a company are fairly routine, but it is important to remember that faulty incorporation may cause future problems. Incorporation should be handled with professional advice.

3.4 Statutory Requirements

- The Companies Act of 1993 deals with the various procedures affecting shareholders.
- Directors are responsible for the management of a company's affairs.
- Directors need not be shareholders.

3.5 Branches of Foreign Corporations

- An overseas company may transact business by way of a branch operation.
- The same rate of tax is the same as a resident company currently 33%.
- When losses are anticipated in the early years the overseas company may get relief for those losses. (subject to overseas domestic law).
- Foreign branches must be audited

3.6 Partnerships and Sole Proprietorships

- Governed primarily by the Partnership Act of 1908.
- Not considered as an entity separate from its partners.
- A sole proprietorship may be formed without official approval. There is no requirement for an audit.

3.7 Subsidiaries

- An overseas company may utilise a subsidiary company.
- This is an appropriate business structure where profits are anticipated.

3.8 Trusts

- Not normally chosen for an overseas investor seeking to conduct business in New Zealand.

4. Finance

4.1 Currency

Currency is the New Zealand Dollar (NZ\$). Exchange rate was floated in March 1985.

4.2 Banking System

The core of the New Zealand banking system comprises a central bank (the Reserve Bank of New Zealand), four trading banks, and three trustee saving banks offering a broad range of financial services including home mortgage finance, deposit and term loan facilities, commercial lending facilities and foreign exchange services.

4.3 Securities and Stock Exchanges

New Zealand stock exchange operates a centralised computer clearing system. Sharebrokers provide advice to companies wishing to raise capital or to place new shares and also underwrite share and security and bond issues.

5. Auditing and Accounting

5.1 Annual Audit Requirements

Listed Companies, overseas companies and overseas branches require an audit.

5.2 Accounting Profession

The New Zealand Institute of Chartered Accountants of New Zealand represents the chartered accountants in New Zealand. Compliance with Statements of Standard Accounting Practice (SSAP) and Financial Reporting Standards (FRS) are mandatory.

The Stock Exchange requires all listed companies to comply with the reporting requirements of the New Zealand Institute of Chartered Accountants as prescribed by the New Zealand equivalents of the International Financial Reporting Standards.

6. Taxation

6.1 Introduction to the Tax System

Taxation is fairly straightforward. Direct and indirect taxation, collected by the Inland Revenue Department and the Customs Department. To assist in the move towards greater indirect taxation the Government introduced Goods & Services Tax (a value added tax) in 1986. There has been a considerable alteration in the proportion of total revenue originally collected largely from income tax (a direct tax) as a result of the introduction of GST (an indirect tax).

6.2 Companies

Residence

A company is deemed to be resident in New Zealand if it is incorporated in New Zealand or has its head office there.

- Taxed at the rate of 33 cents in the dollar on taxable income with credits allowed for overseas tax paid.

Assessable Income

Computation of a company's assessable income. All profits or gains derived from any business activity:

- gross profit from the sale of inventory, gross receipts from services rendered, commissions, rents and royalties; and
- all interest received, dividends, and profits on the redemption of commercial bills.

Losses Incurred in Prior Years

Losses incurred may be carried forward and offset against future assessable income.

Dividend Imputation

Dividends assessable in shareholders' hands, but a credit will be allowed for company tax paid previously.

6.3 Individuals

Residence

Determination of the country of residence determines liability for income tax.

- A New Zealand resident is assessable on worldwide income.
- A non-resident person is liable for income tax only on income derived from New Zealand

The rates of income tax for the year commencing 1 April 2005 are:

Income (NZ\$)	Tax Rate%
0 – 38,000	19.5%
38,001 – 60,000	33%
exceeds 60,001	39%

6.4 Other Entities

Partnerships

Each partner files a separate return of all his income, including his share of the partnership income.

Trusts

Income for the trust will be taxable at 33% on Trustees income. Beneficiaries are taxed at their own rate.

6.5 Tax Treaties

New Zealand is at present entered into double taxation agreements with the following:

Australia	Netherlands
Belgium	Norway
Canada	People's Republic of China
Denmark	Philippines
Fiji	Singapore
Finland	South Korea
France	Sweden
India	Switzerland
Italy	United Kingdom
Japan	United States of America
Malaysia	Germany

6.6 Withholding Taxes

Dividends/Interest/Royalties

Non resident withholding tax is levied at 15% in most cases.

6.7 Other Taxes and Duties

Customs and Excise Duty

The government imposes duty on specified imported goods and on the local production of certain goods (particularly alcoholic beverages and tobacco products).

Fringe Benefit Tax

Employer are liable to pay fringe benefit tax (FBT) on the value of fringe benefits provided to their employees.

Fringe benefits are defined generally as:

- The value of free, subsidised, or discounted goods and services.

Goods and Service Tax

Levied on the supply of goods and services and also levied on imported goods the taxpayer will receive a credit for GST paid on expenditure.

Gift Duty

Gift duty is imposed on every dutiable gift subject to the first NZ\$27,000 of gifts in any calendar year being free of duty.

6.8 Other Legislation**Accident Compensation**

Employees pay a flat rate of 1.3% cents per \$100 of gross earnings.

BKR International

BKR International is an association of more than 140 independent firms of accountants with 300 offices worldwide.

Partners in member firms are experts in the accounting and taxation requirements of their own countries, and consider that direct partner contact with clients is the key to successful professional relationships.

BKR International is represented by member firms in each of the following countries

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Cameroon	Japan	Singapore
Canada	Kenya	South Africa
Channel Islands	Korea	Spain
Chile	Kuwait	Sweden
China	Lebanon	Switzerland
China – Hong Kong	Lithuania	Taiwan
Colombia	Luxembourg	Tunisia
Cyprus	Malaysia	Turkey
Denmark	Malta	Ukraine
Dominican Republic	Mexico	United Arab Emirates
Egypt	Morocco	United Kingdom
Estonia	Netherlands	United States of America
France	New Zealand	Uruguay
Germany	Norway	Venezuela