Inland Revenue
Te Tari Taake

Regulatory Impact Statement: Lowering compliance and cashflow costs for foreign currency financial arrangements

Decision sought	*Cabinet Decision*
Agency responsible	*Inland Revenue*
Proposing Ministers	*Minister of Finance, Minister of Revenue*
Date finalised	*12 August 2026*

The Ministers of Finance and Revenue announced amendments to the financial arrangements rules as part of Budget 2026 that would lower the effect that foreign exchange rate movements are having on investments denominated in foreign currencies. The objective of these changes is to increase cashflow certainty and reduce compliance costs for taxpayers (particularly migrants), while maintaining the integrity and base of the financial arrangements rules.

Summary: Problem definition and options

What is the policy problem?

The financial arrangements rules apply to arrangements to exchange money for the future promise of repayment (with or without interest). These rules can be complex to apply, but this complexity is generally necessary to prevent taxpayers from engineering arrangements that defer their tax liabilities. The rules contain carve outs for low-risk taxpayers/arrangements so that the complexity of the rules is proportionate to the risk of tax deferral.

However, taxpayers with arrangements denominated in foreign currencies are falling outside these carve outs despite being relatively low risk. This is caused by how the New Zealand dollar (NZD) equivalent movements in currency exchange rates are accounted for by the rules. This is causing taxpayers to experience high compliance costs and high cashflow uncertainty over their annual tax positions.

In addition, stakeholders report that migrants are experiencing these costs and uncertainty more acutely because these taxpayers tend to have a higher proportion of investments denominated in foreign currencies. As a result, current settings may also be counteracting the Government's goal of attracting highly skilled migrants as a means of supporting the Government's productivity growth objectives.

What is the policy objective?

The objective of this project is to lower compliance and cashflow costs for individuals with financial arrangements denominated in foreign currencies. Any changes should balance these costs with preserving the integrity function of the rules, while raising approximately the same amount of tax revenue as the status quo. Where possible, changes should also address issues specific to taxpayers' migration circumstances and improve New Zealand's attractiveness as a destination for migrants.

What policy options have been considered, including any alternatives to regulation?

Officials considered two primary options during this policy project:

Option 1 – Retain the status quo

Under this option, taxpayers would continue to apply existing rules to their financial arrangements denominated in foreign currencies and would continue to experience current compliance and cashflow costs regardless of their risk profile. This option may also bias migrants away from New Zealand, counteracting the Government's objectives. However, this option would not affect the integrity function of the rules and would carry no fiscal cost.

Option 2 – Package of changes targeting financial arrangements denominated in foreign currencies (preferred)

This option would introduce a range of measures designed to address current compliance and cashflow costs, and make New Zealand a more attractive destination for migrants. These measures carry some risks to the integrity function of the financial arrangements rules and a small fiscal cost of $2.06 million over the forecast period.

1. **New "elected functional currency" rule:** Would permit eligible taxpayers to use a new method for calculating income under the financial arrangements rules for their foreign currency arrangements.

2. **New "quarantined foreign financial arrangements" rule:** Would allow individuals taxed on a citizenship basis (primarily United States (US) migrants) to calculate their financial arrangements income on a cashflow basis.

3. **New rules for valuing arrangements acquired for visa eligibility:** Would prevent unexpected tax obligations for migrants who acquired arrangements for the primary purpose of meeting visa eligibility.

4. **Three changes to the excepted financial arrangements definitions:** Would remove a range of common, low-risk foreign currency arrangements from the scope of those definitions.

Officials also considered, but ruled out at an early stage, options involving more significant changes to the financial arrangements rules in general. These options were likely to carry integrity risks and fiscal costs that were outsized to the policy problem officials were looking to review.

Officials also did not consider non-regulatory options, because the cause of the issues identified is in current legislation. Addressing these issues therefore required regulatory change.
What consultation has been undertaken? Officials have undertaken three rounds of consultation in relation to this project (in addition to informal conversations with affected stakeholders throughout): 1. During the Budget 2025 process, officials consulted on amendments to another set of rules (the foreign investment fund (FIF) rules). Discussions during (and after) consultation on that project informed the problem definition and scope of this project. 2. Officials consulted with a limited number of specialists between December 2025 and February 2026 on the problem as they understood it, and initial options that could resolve that problem. This consultation refined the problem definition and resulted in new measures being considered to address the problem. 3. Officials consulted with those technical specialists again during May 2026 on design features of two of the proposals in the package in Option 2, and again in July 2026 on a targeted integrity measure for the elected functional currency rule. Officials did not undertake public consultation on this project due to the highly specialised nature of the financial arrangements rules (particularly as they relate to investments in foreign currencies). Approaching this technical audience allowed officials to prepare consultation documents tailored to their expertise, focusing conversations on the specific problems and technical solutions being considered.
Is the preferred option in the Cabinet paper the same as preferred option in the RIS? Yes (Option 2).

Summary: Minister's preferred option in the Cabinet paper

Costs (Core information)
Collectively, the package of amendments would carry a total fiscal cost of $2.06 million over the forecast period; reflecting a small portion of current tax revenue being deferred each year (relative to the status quo). The package carries some integrity risks (specifically, in relation to taxpayers speculating on foreign exchange rate movements). The proposal includes a targeted integrity rule to manage this risk.
Benefits (Core information)
The package of amendments would increase certainty and reduce compliance costs for a wide range of taxpayers with investments in foreign currencies. The package also carries benefits specific to migrants, designed to make New Zealand a more attractive destination.
Balance of benefits and costs (Core information)
On balance, officials consider Option 2 as the most cost-effective means of reducing compliance and cashflow costs. While this option carries some integrity risks and fiscal costs, officials believe these are small relative to the reduction in compliance and cashflow

costs. Further, the option would likely also support Ministers' productivity growth objective of making New Zealand a more attractive destination for migrants.

Implementation

The proposal would be implemented legislatively through the 2026–27 Annual Rates Bill. All changes will take effect from 1 April 2027, with the exception of 1 April 2025 for changes related to the valuation of arrangements acquired for visa eligibility.

The proposal carries minimal administrative cost because income under the financial arrangements rules would remain self-assessed. Inland Revenue will be responsible for providing guidance on the changes.

Limitations and Constraints on Analysis

The primary limitation in relation to this project is in the evidence base available to officials. Under the status quo, Inland Revenue collects limited information on taxpayers' financial arrangement income from foreign investments (via the IR1261 form). This information is of limited value for the following reasons:

- Taxpayers have only been required to fill in the IR1261 for income years beginning on or after 1 April 2023, meaning that only two years of information has been collected.
- The IR1261 has only been in use for a short time, so no review has been conducted on how compliant taxpayers are with providing the required information.
- The IR1261 does not collect information on a person's migration status. As a result, the amount of financial arrangement income that can be attributed to migrants can only be estimated by supplementing this information with Stats NZ migration data.

Consequently, officials have an incomplete understanding of the scale of the problem, and therefore the cost and benefits of the package. We have supplemented our empirical evidence with discussions with stakeholders to inform our analysis.

Responsible Manager(s) signature:

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12 August 2026

Quality Assurance Statement	
Reviewing Agency: Inland Revenue	**QA rating:** Meets
Panel Comment: The panel considers that the information contained in the regulatory impact statement meets the quality assurance requirements.	

Section 1: Diagnosing the policy problem

What is the context behind the policy problem and how is the status quo expected to develop?

Background to financial arrangements rules

1. The financial arrangements rules apply to any arrangement when a person provides another person with money with the expectation of repayment (with or without interest) at some point in the future. The legislative definition of a financial arrangement is very broad, and intentionally captures many common arrangements such as bank accounts, mortgages, and investments in bonds.

2. In the absence of the financial arrangements rules, taxpayers would be able to engineer arrangements that shifted the taxation of income into the future, while bringing forward deductions, in effect, artificially deferring tax payments. The integrity purpose of the rules is to prevent this, which is done by requiring taxpayers to spread the recognition of income and expenses over the term of a financial arrangement.

3. Mechanically, this is achieved through two sets of "sub-rules". The first are the "spreading rules", which dictate how taxpayers should spread income and expenses during income years in which the arrangement is still active. The second are the "base price adjustment rules", which function as a wash-up calculation at the end of an arrangement to capture any income and expenses not accounted for by the spreading rules.

4. Applying the financial arrangements rules correctly requires completing annual calculations that will generally require specialist help for more complex financial arrangements. Additionally, the accrual basis of the rules means that taxpayers can incur a tax liability for income they have not actually received, which can cause a mismatch between taxpayers' cashflow and their tax liabilities.

5. To ensure that disproportionately high costs are not imposed on taxpayers who pose a low risk of deferring their tax payments, the financial arrangements rules have two carve-outs:

    a. **Cash basis persons rules:** Taxpayers are not required to apply the spreading rules in a given income year if their financial arrangements either:

        i. have a total value below $2 million, or
        ii. have less than $200,000 accrued income or expenditure in the income year.

    b. **Excepted financial arrangements definitions:** Taxpayers are not required to apply either the spreading rules or base price adjustment rules to any excepted financial arrangement. Examples include insurance contracts or sale and purchase agreements for domestic properties.

Specific regulatory failure

6. Currently, the financial arrangements rules require that the value of any arrangements (and the amount of income or expenditure that arises under the rules) are calculated in NZD. This means that when an arrangement is denominated in a foreign currency (such as, US dollars), changes in the exchange rate between the NZD and that foreign currency will change the NZD value of the arrangement each year. This change in value is then treated by

the spreading rules as either income or an expense (depending on how the exchange rate has moved).

7. This is causing two issues for taxpayers:

    a. Relatively low-risk taxpayers with foreign currency arrangements are failing to qualify as cash basis persons and are attracting outsized compliance costs. This is because relatively small exchange rate movements on common arrangements (such as mortgages and bonds) are causing these taxpayers to have accrued income or expenditure greater than $200,000.

    b. Once in the scope of the spreading rules, unrealised exchange rate gains (and losses) become subject to tax. Because exchange rate movements are difficult to predict, taxpayers can have significantly different tax outcomes year-on-year (despite nothing else changing with their arrangements). This means taxpayers often have a high degree of cashflow uncertainty over their foreign investments.

8. Officials believe that these costs could be lowered without undermining the integrity function of the financial arrangements rules, or the New Zealand tax base more generally:

    a. Officials do not believe that financial arrangements denominated in a foreign currency pose a materially higher integrity risk than functionally identical arrangements denominated in NZD. The fact that taxpayers can lose the protection of the cash basis persons rules solely because their arrangements are denominated in foreign currencies is a failure of the intended scope of the rules.

    b. Exchange rate movements cannot be known ahead of time and most taxpayers are not speculating on those movements, so a roughly equal amount of non-speculative gains and losses are being captured by the rules annually. This means that current settings are causing taxpayers to incur cashflow costs from unexpected and unrealised gains (and losses) while the Crown is collecting net nil revenue.

How regulatory failure relates to Government objectives

9. The Government's economic strategy "Going for Growth" sets specific goals for reducing unnecessary regulatory and compliance costs. Given the discussion above, officials believe that some of the compliance and cashflow costs associated with the financial arrangements rules are unnecessary to preserve the integrity purpose of the rules. Therefore, lowering those costs (while preserving the integrity function of the rules) would support the Government's stated objectives.

10. Further, the Government is also interested in attracting highly skilled migrants to New Zealand by reducing regulatory barriers. Through consultation, officials are aware that the issues discussed are particularly important to these migrants, who we understand (based on that consultation) are disproportionately likely to have arrangements denominated in foreign currencies.

11. Stakeholders have reported that current settings are discouraging some migrants from choosing New Zealand, which may be counteracting the Government's broader work programme in this area. However, officials have not been able to find evidence in official data to support stakeholders' claims, though we note that this is primarily because the Government does not collect any information on whether certain tax settings are affecting a person's decision on whether to migrate to New Zealand or not.

What is the policy problem or opportunity?

12. All the issues identified are primarily a function of how the spreading rules account for foreign exchange movements. In theory, it is possible to change how those movements are accounted for while not endangering the integrity function of the rules, and collecting a broadly similar level of tax revenue from foreign currency financial arrangements. There is therefore an opportunity to support Government objectives at a relatively low fiscal cost.

What objectives are sought in relation to the policy problem?

13. The primary object of this project is to reduce the compliance and cashflow costs for all taxpayers with financial arrangements denominated in foreign currencies. Ideally, any changes should also make New Zealand a more attractive place for highly skilled migrants to live and work (to the extent their decisions are being affected by the status quo).

14. Any changes should preserve the integrity of the financial arrangements rules, and ensure that a broadly similar level of tax revenue is collected by the financial arrangements as at status quo (that is, carry a low-to-nil fiscal cost).

What consultation has been undertaken?

15. During the course of this project, officials invited 16 stakeholders with relevant expertise in, and/or clients affected by, the financial arrangements rules to consult on the scope and design of the proposals. We also invited those stakeholders to share our proposals with their clients and professional network. Consultation took place over three rounds:

    a. **Round 1:** During the 2025 Budget process, officials consulted on amendments to another set of rules that stakeholders had identified as a barrier to migrants (the FIF rules). Discussions during formal consultation on that project (and informal discussions afterwards) informed the problem definition and scope of this project.

    b. **Round 2:** Officials consulted with a limited number of specialists between December 2025 and February 2026 on the problem as they understood it, and initial options that could resolve that problem. Feedback from stakeholders[1] was that these proposals did not address the main issues they were experiencing and encouraged more comprehensive solutions in relation to:

        i. The way the financial arrangements rules accounted for exchange rate movements that were a major issue to both migrants, but also any other taxpayer with arrangements denominated in a foreign currency.

        ii. Specific issues experienced by US migrants who experience double taxation because the US taxes on a citizenship basis, and who are not covered by the relevant protections in the New Zealand–US double tax agreement.

    c. **Round 3:** Officials consulted with the same technical specialists again during May 2026 on the design of two new proposals that sought to address the request for more comprehensive solutions. Stakeholders[2] universally supported these

[1] Officials received submissions from seven of the stakeholders during this round (Buddle Findlay, CA ANZ, Deloitte, EY, KPMG, Patterson Legal, PwC).
[2] Officials received submissions from 10 of the stakeholders during this round (Baucher Consulting, Buddle Findlay, CA ANZ, Deloitte, EY, KPMG, MinterElisonRuddWatts, OliverShaw, Patterson Legal, PwC).

solutions and provided technical feedback that informed the final design of the final package of proposals (including in follow-up conversations in July).

Section 2: Assessing options to address the policy problem

What criteria will be used to compare options to the status quo?

16. The options will be evaluated against the traditional tax policy criteria of efficiency, equity, revenue integrity, fiscal impact, compliance and administration costs, and coherence:

    a. **Efficiency**: To the extent possible, taxes should be efficient and minimise impediments to economic growth. That is, the tax system should avoid unnecessarily distorting the use of resources (for example, causing biases toward one form of investment versus another) and imposing heavy costs on individuals and firms.

    b. **Equity**: The tax system should promote fairness. The burden of taxes differs across individuals and businesses depending on which bases and rates are adopted. Assessment of both vertical equity (the relative position of those on different income levels or in different circumstances) and horizontal equity (the consistent treatment of those at similar income levels, or in similar circumstances) is important.

    c. **Compliance and administration costs**: The tax system should be as simple and low cost as possible for taxpayers to comply with, and should provide taxpayers with as much certainty over their annual tax positions as practical. It should also be possible for Inland Revenue to administer the tax system in as cost-effective way as practical.

    d. **Revenue integrity**: The tax system should be sustainable over time and minimise opportunities for tax avoidance and arbitrage.

    e. **Fiscal impact**: Tax reforms need to be affordable given fiscal constraints, and the tax system must raise sufficient revenue to support the Government's fiscal strategy.

    f. **Coherence:** Individual reform options should make sense in the context of the entire tax system. While a particular measure may seem sensible when viewed in isolation, implementing the proposal may not be desirable given the tax system as a whole.

What scope will options be considered within?

17. During the 2025 Budget process, the Government investigated changes to the FIF rules as a means of lowering barriers to attracting migrants to New Zealand. As part of that project, stakeholders noted that the financial arrangements rules were also imposing high compliance and cashflow costs on foreign currency investments, and that this may also be acting as a barrier to attracting migrants.

18. Consequently, the Government included a review of the impact of the financial arrangements rules on migrants in the October 2025 Tax and Social Policy Work Programme. Stakeholder feedback on our original problem definition identified that issues with the rules affected more than just migrants, and supported expanding the scope of the project to be agnostic to migrant status.

19. As a result, Ministers agreed to update the scope of the project into how compliance and cashflow costs could be reduced for all taxpayers with financial arrangements denominated in foreign currencies.

20. Officials limited the scope of this project in two ways:

a. Officials did not consider options that materially lowered the overall tax payable under the financial arrangements rules. While reducing tax payable could indirectly reduce compliance costs (and directly make New Zealand more attractive to migrants), this would require materially eroding the integrity function of the rules. Consequently, officials discounted this option because it would likely carry a large fiscal cost but without a proportionate benefit to the Government's stated objectives.

b. Officials did not consider options that would review the accrual basis of the financial arrangements rules on a more fundamental level. While moving away from the accrual basis could significantly reduce compliance costs for all taxpayers affected by the financial arrangements rules (not just those with foreign currency denominated arrangements), this would require a complex and lengthy review of the entirety of the rules. Officials did not consider this a viable option to recommend given competing resource constraints, and potential fiscal and integrity risks.

21. Lastly, officials did not consider any non-regulatory changes in-scope. This is because the financial arrangements rules are governed by the Income Tax Act 2007, and any meaningful changes to these rules would necessitate legislative change.

What options are being considered?

Option 1 – Status quo

Technical overview of status quo

22. A technical summary of how the financial arrangements rules apply to arrangements denominated in foreign currencies is provided at paragraphs 1 through 7 in section one of this report.

Costs and benefits of status quo

23. Taxpayers would continue to apply existing rules to all their foreign currency denominated financial arrangements. These taxpayers would continue to experience current compliance and cashflow costs. For some taxpayers, these costs will be disproportionate to the integrity risks that their arrangements pose to the New Zealand tax base.

24. Maintaining the status quo carries the lowest risk of eroding the integrity function of the financial arrangements rules and would carry a nil fiscal cost because the current tax base would be preserved.

25. Stakeholder feedback has indicated that this option will continue to make New Zealand a less attractive place for migrants to live and work. This would suggest that the status quo runs contrary to the Government's specific objectives for increasing migration.

Option 2 – Package of changes targeting financial arrangements denominated in foreign currencies

Technical overview of package

26. The package contains six measures that would change how the financial arrangements rules affect a range of financial arrangements denominated in foreign currencies. The first of these measures, the elected functional currency rule, has the widest impact on the compliance and cashflow costs of taxpayers.

27. The other five measures are tailored to specific arrangements or migrant groups that are experiencing specific additional compliance and cashflow costs that would not be wholly resolved through the introduction of the elected functional currency rule.

Measure 1: Elected functional currency rule

28. This proposal would allow eligible taxpayers to elect to calculate their tax liabilities under the spreading and base price adjustment rules in a foreign currency (not NZD) for all arrangements denominated in a currency that is not NZD. Instead, only the final result of that calculation would be converted to NZD. This will have two effects:

    a. Movements between the exchange rate of the elected currency and NZD would no longer be captured by the spreading rules. This will prevent those movements from triggering a loss of cash basis person status, and will prevent any unrealised exchange rate gains (or losses) from being assessed at the end of the income year.

    b. The movement between the elected currency and NZD would not be factored into the base price adjustment calculation at the end of the arrangement. This will mean that realised exchange rate gains (and losses) would also be removed from the scope of the rules.

29. To prevent this rule from creating new avenues for tax deferral (and eroding the integrity function of the financial arrangements rules), eligibility criteria would apply to limit their use to lower risk taxpayers:

    a. Only natural persons, controlled foreign companies with one shareholder, and certain family trusts would be eligible to use the rules.

    b. Any taxpayer who carries on currency trading activities, or who has a regular pattern of buying and selling foreign currencies, would be prevented from using the rules for any of their foreign currency arrangements.

    c. Taxpayers cannot elect to use the elected functional currency rules in respect of derivative instruments, such as forward contracts, swaps, options, contracts for difference. Taxpayers with these arrangements would still be able to use the rules for their other arrangements (assuming all other eligibility criteria are met).

    d. Election into the rule would be on a "one time only" basis, and an election would be for all a taxpayer's arrangements denominated in a foreign currency (other than derivatives). Taxpayers would be entitled to elect out of the rules in the future, but doing so would disqualify them from electing back in. This is to prevent taxpayers electing in and out of the rules depending on how exchange rate movements have played out in a given income year.

30. Taxpayers electing into the rule would be entitled to calculate each of their foreign currency arrangements in the currency in which it is denominated. Alternatively, they could elect to calculate all their foreign currency arrangements in one single non-NZD currency (regardless of what currency the arrangement is denominated in). Once an election is made, a taxpayer could only change their functional currency if they have good commercial reason for doing so, and must inform the Commissioner of any change.

31. Taxpayers electing into the rules for existing arrangements, or who change the functional currency of an arrangement, would be required to complete an adjustment for that arrangement in the year that they make that election or change.

Example of how rule works relative to status quo

32. Mrs A migrated to New Zealand from the United Kingdom (UK) five years ago and has two financial arrangements, both denominated in pounds sterling (GBP):

    a. a UK interest-only mortgage over a rental property with a value of £600,000, and
    b. a 10-year term deposit with a UK bank for £100,000.

33. Assume that on 1 April 2027 the NZD/GBP cross exchange rate is 0.4321, Mrs A's arrangements will have a total absolute value of NZ$1,620,000. At the end of the next income year (31 March 2027) assume that the GBP principal value of both the arrangements remain unchanged, but the NZD/GBP cross exchange rate has appreciated to 0.5000, meaning that her arrangements now have an unrealised absolute NZD equivalent value of $1,400,000.

34. Under the status quo, Mrs A would fail to qualify as a cash basis person because the change in the absolute accrued value of her financial arrangements is NZ$220,000, which is more than the NZ$200,000 limit under section EW 57(2) of the Income Tax Act 2007. Consequently, she must pay tax on the full value of the unrealised NZD equivalent of the foreign exchange gains and or losses for the income year – being the unrealised gain (profit) in the NZD equivalent value of her UK mortgage liability of $188,567.46,[3] and the unrealised decrease (loss) in the NZD equivalent value of her term deposit asset of $31,427.91.[4] Mrs A would effectively be subject to paying New Zealand tax on a net foreign exchange gain (profit) of NZ$157,139.55.[5]

35. Under the proposed rule, Mrs A could instead choose to calculate her accrual income in GBP. Using GBP as her functional currency, resulting in her accrual income being NZ$0, which is less than the NZ$200,000 absolute value limit. Consequently, she is not required to apply a spreading method for the income year and has no tax liability under the financial arrangements rules for the income year.

Costs and benefits of elected functional currency rule

36. Taxpayers would no longer lose access to cash basis person status solely because of exchange rate movements. Taxpayers would also no longer be taxable on (or allowed losses for) unexpected exchange rate gains and losses. In combination, more taxpayers should be allowed to ignore the spreading rules each year, reducing their compliance costs and limiting their exposure to unexpected cashflow shocks.

37. In aggregate, officials estimate that the changes would mean a roughly equal level of foreign exchange gains and losses are removed from the New Zealand tax base. Consequently, the estimated fiscal cost of this change is nil.

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[3] ((£600,000 ÷ 0.4321 = NZ$1,388,567.46) – (£600,000 ÷ 0.5000 = NZ$1,200,000.00) = NZ$188,567.46 gain)), because the UK mortgage liability unrealised NZD equivalent value has decreased).
[4] ((£100,000 ÷ 0.4321 = NZ$231,427,91) – (£100,000 ÷ 0.5000 = NZ$200,000) = NZ$31,427.91 loss)), because the term deposit asset unrealised NZD equivalent value has decreased).
[5] ($188,567.46 – $31,427.91 = $157,139.55).

38. This measure would introduce integrity risks relative to the status quo. While the rule has been designed to mitigate these risks, the complexity involved with some foreign currency financial arrangements means there may be unforeseen ways for the rule to be abused. Officials would monitor behaviour in this area.

Measure 2: Quarantined foreign financial arrangements rule

39. US citizens are uniquely subject to tax by virtue of their citizenship regardless of where they reside. This means US migrants are always exposed to double taxation (that is, when two countries tax the same income at the same time). In most cases, US migrants are protected from double taxation if the country they migrate to has a double tax agreement with the US (which function to tie-break taxing rights to just one country).

40. While New Zealand and the US have a double tax agreement, that agreement does not tie-break taxing rights when income is taxed in New Zealand (but not the US) because of the accrual basis of the financial arrangements rules. Further, the proposed elected functional currency rule would still tax US source income on an accrual basis (it would still be subject to the spreading rules). This means US migrants remain exposed to double taxation on their remaining income.

41. The quarantined foreign financial arrangements rule would resolve this issue by allowing a taxpayer to calculate income from a financial arrangement on a cashflow basis. This aligns the New Zealand and US tax treatment, meaning the taxpayer would be eligible for double tax relief on this income under the New Zealand–US double tax agreement.

42. A person would be eligible for these rules if:

    a. the arrangement is held by a natural person that is a New Zealand tax resident
    b. the income from the arrangement does not have a New Zealand source
    c. income from the arrangement is liable to tax in a foreign jurisdiction based on the natural person's citizenship or working rights, and
    d. the foreign jurisdiction has a double taxation agreement with New Zealand.

43. Taxpayers electing to use the rule for existing financial arrangements would be required to complete a cash basis adjustment calculation in respect of that arrangement.

44. By electing to use this rule in respect of a financial arrangement, the taxpayer would not be able to claim any foreign tax credits in respect of income calculated on an accrual basis on the arrangement. If the taxpayer does later claim these credits, they will be subject to relevant penalty provisions under the Tax Administration Act 1994 for misleading the Commissioner.

Costs and benefits of quarantined foreign financial arrangements rule

45. Any taxpayer who is a dual tax resident between New Zealand and another country that taxes on a citizenship basis (which will almost always be the US), would no longer be subject to double taxation by virtue of their basis of taxation in New Zealand. This change has the primary benefit of increasing the attractiveness of New Zealand to US migrants with material US dollars, and US source financial arrangements.

46. These taxpayers would also receive the benefit of calculating tax on their arrangements on a cashflow basis, which poses some integrity risks. Officials believe these are relatively low because these taxpayers would still be required to complete base price adjustments at the

conclusion of these arrangements, limiting any intentional deferral to short-term timing advantages.

47. Because of that short-term timing advantage, this proposal carries a fiscal cost of $1.26 million over the forecast period. Officials are uncertain of how much of an increase in migration from the US can be expected as a trade-off for that cost.

Measure 3: Special rule for financial arrangements acquired for purpose of meeting visa requirements

48. One of the primary measures the Government is taking to support its migration objectives is the Active Investor Plus (AIP) visa. This visa entitles individuals to migrate to New Zealand if they make certain investments in the domestic economy. Importantly, these investments will often be considered financial arrangements with a New Zealand source.

49. Stakeholders report that this has two consequences that may be discouraging target migrants from applying for the AIP visa:

    a. The investment must be made before the taxpayer arrives in New Zealand, so the value of the investment can change before the taxpayer arrives in the country. Because the person should be considered a tax resident from the first day they arrived, the financial arrangements rules will require them to revalue that arrangement as if it were acquired on the day they arrived.

    b. Normally, New Zealand’s transitional tax residency rules operate to prevent “surprise” tax liabilities like this for new migrants. However, transitional residency only applies to investments with a foreign source, meaning that AIP investments in New Zealand financial arrangements are not covered.

50. The proposed special rule would remove the need to revalue any financial arrangements denominated in NZD that were acquired for the purpose of obtaining the AIP visa, eliminating the unexpected tax effect. In effect, this concessionary rule would treat the person as if they were already a New Zealand resident when the investment was made. Importantly, the scope of the rule is narrow because it would only apply to investments made in NZD for the primary purpose of meeting AIP visa eligibility.

Example of how rule would work relative to status quo

51. Mr B buys NZ$10 million in two-year New Zealand Government bonds to meet AIP eligibility. He then arrives in New Zealand and becomes a tax resident six months later. Assume that changes in interest rates in that time mean the current market value of the NZ$10 million face value of the bonds is now NZ$ 9 million.

52. Under the status quo, when those bonds mature in 18-months-time the base price adjustment rules will treat Mr B as having made a “gain” of NZ$1 million, despite only having been repaid the original NZ$10 million face value of the bonds. In other words, deeming that Mr B acquired the bonds for NZ$9 million (not NZ$10 million), will result in a taxable gain of NZ$1 million.

53. Under the proposed rules, Mr B would instead be treated as having acquired the bonds for the original cost of NZ$10 million on the original date they were acquired. This means that when he eventually completes his base price adjustment calculation, he will have made no gain on the face value of the bonds over the period (assuming all else remains equal).

Costs and benefits of special rules for arrangements acquired to meet visa requirements

54. This measure would increase cashflow certainty for a small group of taxpayers, all of whom will definitionally be migrants. However, there is limited evidence to support this change having a large impact in the attractiveness of the AIP visa. Officials estimate that this change would have a nil fiscal impact because a roughly equal number of gains and losses will be removed from the tax base.

55. Given the targeting of the proposals, officials do not believe these rules would pose an integrity risk. As a result, officials believe that the proposal likely represents good value for money in supporting the AIP visa, despite having limited ability to quantify any benefits.

Remaining three measures

56. The remaining three measures all involve adding (or amending) the rules for common, low-risk foreign currency arrangements to the list of defined excepted financial arrangements:

Broaden eligibility for foreign currency private loans

57. Private loans in foreign currencies are currently considered excepted financial arrangements, so long as the borrower is also considered a cash basis person. Officials now believe that a private loan is sufficiently low risk by itself and should not be excepted only if the holder is also considered a cash basis person.

Except private foreign currency transaction accounts

58. As noted, domestic-purpose, foreign currency loans are currently considered excepted financial arrangements, but domestic-purpose foreign transaction accounts are not.

59. This means that taxpayers that do not qualify as cash basis persons are required to complete annual calculations for a range of personal foreign expense accounts, despite those accounts representing a relatively low integrity risk. This can be burdensome given the number of transactions that flow through those accounts (which must be accounted for when applying the spreading rules).

60. This measure would except foreign private transaction and savings accounts with a primarily private or domestic purpose, such as personal bank accounts. The use of the wording “primarily private” is designed to except accounts that generate some interest, but not to except accounts that have some broader investment purpose (which officials believe should remain subject to the financial arrangements rules).

Limit effect of exchange rate movements on current rule for variable principal debt instruments

61. Currently, variable principal debt instruments (for example, credit cards, revolving credit accounts, etc), are considered excepted financial arrangements when the total value of a person’s instruments is NZ$100,000 or less. Because this value is calculated in NZD, this rule is also sensitive to movements in exchange rate movements, meaning that taxpayers can experience outsized compliance and cashflow costs.

62. This measure would allow taxpayers to calculate the $100,000 threshold once (when the instrument is first entered into) and then ignore fluctuations in foreign exchange rates for subsequent years (unless there is a change in the principal amount). This would give taxpayers more certainty over whether their instruments are or are not considered excepted financial arrangements.

Costs and benefits of all remaining measures

63. These measures all simplify compliance for a range of common arrangements, reducing compliance costs for all taxpayers that are party to those arrangements. Officials expect that the collective fiscal cost of all these measures is $0.8 million over the forecast period because taxpayers would still be required to return any other income (such as interest income). Officials do not consider that these changes pose any integrity risks to the financial arrangements rules.

Overall costs and benefits of Option 2

64. Collectively, the package of amendments included in Option 2 would carry a total fiscal cost of $2.06 million over the forecast period; reflecting a small portion of current tax revenue being deferred each year (relative to the status quo).

65. The benefits of this proposal would primarily accrue to higher income individuals who incur high costs relative to other individuals who only hold NZD-denominated financial arrangements. However, it would provide some benefit to any individual New Zealander with offshore financial arrangements denominated in a foreign currency. On balance, this represents a marginal increase in horizontal equity, though the fiscal cost represents a marginal increase in vertical inequality.

66. The package carries some potential integrity risks, particularly in relation to the proposed elected functional currency rule. At this stage, officials believe that these have been effectively managed by the design of the measures as proposed, but note that there remains the risk of unforeseen flaws with the design of the rules given the complexity of the kinds of arrangements that could be used to circumvent the proposed integrity boundaries.

67. The package of amendments is expected to increase certainty and reduce compliance costs for affected taxpayers. Notably, these benefits would accrue to any individuals that have investments or borrowings denominated in foreign currencies.

68. We understand (from stakeholders) that migrants are more likely to have the foreign currency investments, so they are more likely to accrue these benefits. Therefore, officials expect that the package will increase the attractiveness of New Zealand as a migration destination. All else being equal, officials expect a corresponding but unmeasurable positive impact on the Government's economic objectives.

How does the option compare to the status quo?

	Option 1 – Status quo	Option 2 – Migrant targeted amendments
Efficiency	0	+
Equity	0	+/-
Revenue Integrity	0	0/-
Fiscal Impact	0	-
Compliance costs	0	+
Coherence	0	0
Overall assessment	0	+

What option is likely to best address the problem, meet the policy objectives, and deliver the highest net benefits?

69. Officials consider Option 2 the best option to address the policy problem (high compliance and cashflow costs) and support Ministers' productivity growth objectives. The benefit to taxpayers is likely greater than the fiscal cost to the Crown because the package reduces compliance costs; not their overall tax liability. Consequently, the package should (marginally) improve overall economic efficiency for a relatively small fiscal cost.

Is the Minister's preferred option in the Cabinet paper the same as the agency's preferred option in the RIS?

70. Yes.

What are the marginal costs and benefits of the preferred option in the Cabinet paper?

Affected groups	Comment	Impact (over forecast)	Evidence Certainty
Additional costs of preferred option compared to taking no action			
Inland Revenue	Inland Revenue will need to publish guidance and maintain an additional piece of legislation.	$100,000	**High**
The Government	Forgone tax revenue as a consequence of all measures included in Option 2. However, limited data is available for estimating fiscal cost, and the effect is lessened due to the changes affecting both income and expenditure.	$2.06m	**Low – Medium**
Total monetised costs		$2.16m	**Medium**
Non-monetised costs	Small but unquantified risk to the integrity of the financial arrangements rules. Minor new compliance requirements for taxpayers (offset by overall reduction in costs).	*N/A*	*N/A*
Additional benefits of preferred option compared to taking no action			
Inland Revenue	*N/A*	*N/A*	*N/A*
Highly Skilled Migrants	Small net reduction in total tax paid ($2.06m) over total population. Limited data is available to quantify this amount. Larger benefit in the form of reduction in compliance and cashflow costs. This is	$2.06m reduction in total tax paid, medium reduction in	**Medium**

	supported by comments from stakeholders.	compliance costs.	
The Government	Supports the Government's objectives through: (a) reduced compliance costs, and (b) increased migration of highly skilled persons. However, it is not possible to quantify how much economic benefit the changes will directly result in.	Low	**Low**
Total monetised benefits		$2.06m	**Medium**
Non-monetised benefits		Low – medium	**Low – Medium**

Section 3: Delivering an option

How will the proposal be implemented?

71. The new rules would be implemented legislatively by amendments to the Income Tax Act 2007 through the 2026–27 Annual Rates Bill scheduled for introduction in September 2026. All changes would be effective from 1 April 2027, with the exception of changes related to the valuation of arrangements acquired for visa eligibility (effective from 1 April 2025).

72. Inland Revenue would be responsible for the implementation and administration of the new rules. Inland Revenue will issue guidance in the Act commentary and on the Inland Revenue website to support understanding of the new rules and taxpayer compliance. Internal guidance will also be issued to support operational departments.

How will the proposal be monitored, evaluated, and reviewed?

73. Inland Revenue does not propose any formal monitoring or evaluation of these changes. Inland Revenue would instead monitor the effectiveness of the policy through feedback from private sector stakeholders. If any problems emerge, they will feed into the evaluation of the policy.

74. We expect to get feedback over time from industry stakeholders as to the level of impact the changes have through our regular engagement with those stakeholders. If there are any uncertainties or difficulties in applying the law, we expect to receive requests for guidance or law changes, these will be considered through usual processes.