Tax Rules for Foreign Superannuation Lump Sums Changes

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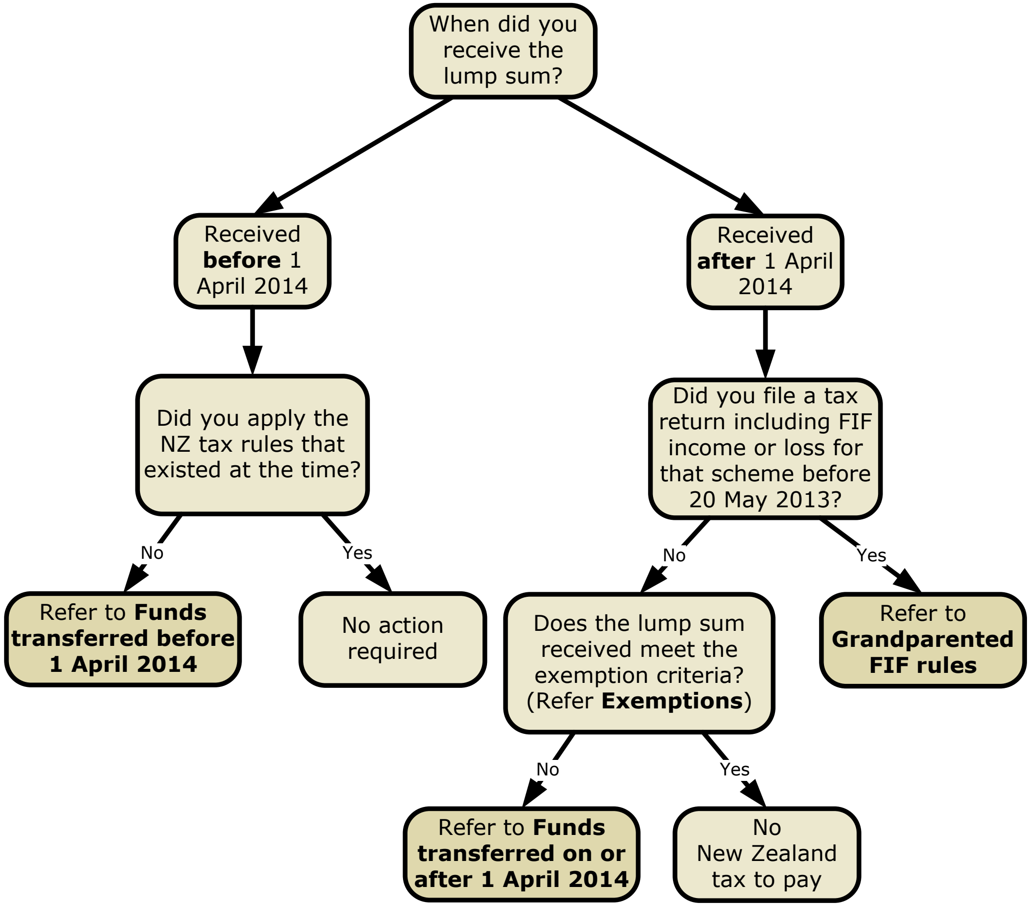
Changes

- FIF rules only apply to FIF superannuation interests (YA1)
- Withdrawal Taxation from 1 April 2014 if interest acquired while non-tax resident
- Lump sums (withdrawals/transfers) are taxed under a Schedule Method or Formula Method
- Formula Method only available for defined contribution schemes

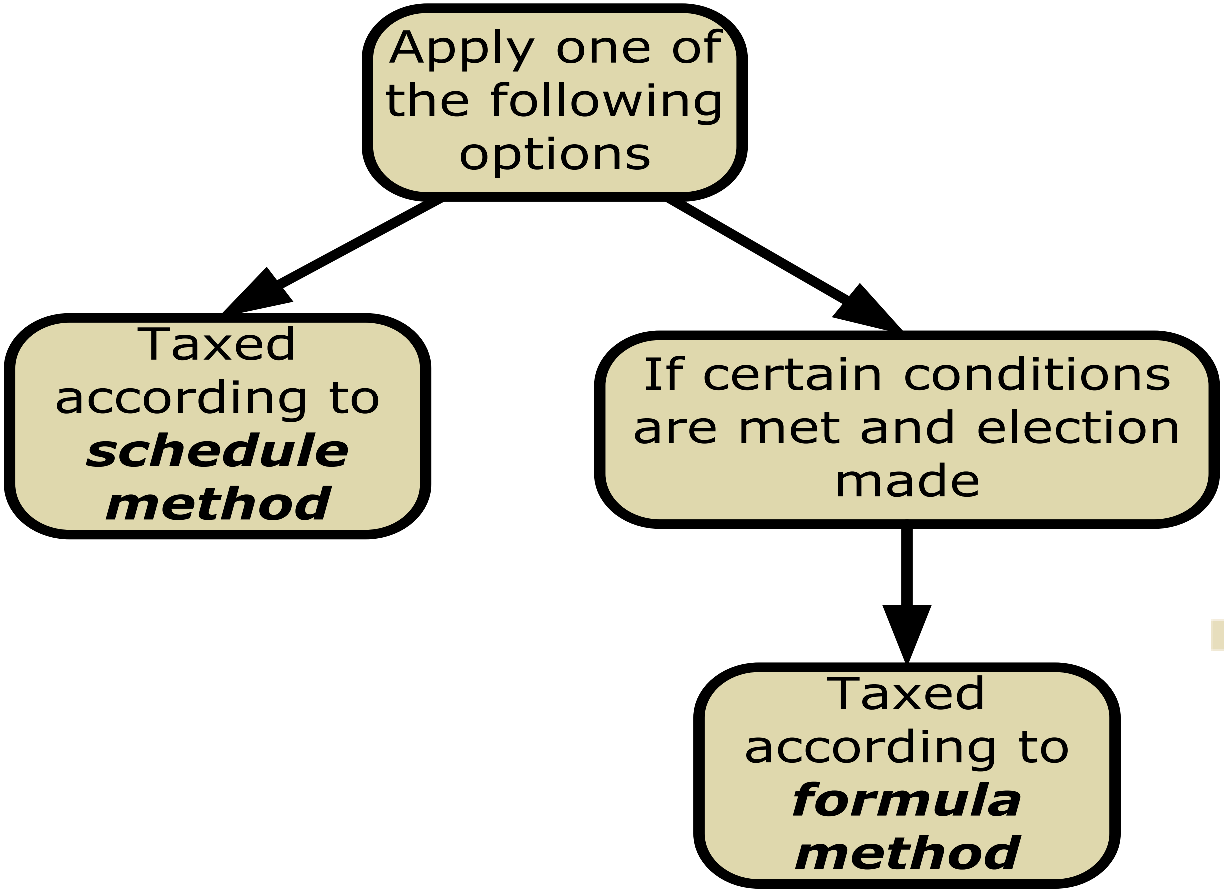
Exemptions

- 4 year exemption period applies to lump sums received on or after 1 April 2014
  Exemption period starts on the first day that the person is a NZ tax resident and generally lasts for the partial month and the following 48 months.
- Australian transfer exemption (1.4.2010)
- Transfers between foreign superannuation schemes (excluding Australia)
- Pre 20 May 2013 compliance with the FIF rules – have a choice to continue using the FIF rules

How it works


When did you receive the lump sum?
Received **before** 1 April 2014
Received **after** 1 April 2014
Did you apply the NZ tax rules that existed at the time?
Did you file a tax return including FIF income or loss for that scheme before 20 May 2013?
No
Yes
No
Yes
Refer to **Funds transferred before 1 April 2014**
No action required
Does the lump sum received meet the exemption criteria? (Refer **Exemptions**)
Refer to **Grandparented FIF rules**
No
Yes
Refer to **Funds transferred on or after 1 April 2014**
No New Zealand tax to pay

Post 1.4.2014 or New Lump Sums



Formula Method

- Is based on actual gains derived while the person is a New Zealand tax resident
- The scheme is a defined contribution scheme
- It includes an interest charge for the deferral of the tax payment
- No losses are available

Schedule Method

- Default method for taxing lump sums withdrawals or transfers
- Based on the number of income years that begin after the end of the four year exemption period and before the lump sum is received

Year	Fraction (%)	Year	Fraction (%)
1	4.76	14	60.27
2	9.45	15	64.08
3	14.06	16	67.84
4	18.60	17	71.53
5	23.07	18	75.17
6	27.47	19	78.75
7	31.80	20	82.28
8	36.06	21	85.74
9	40.26	22	89.16
10	44.39	23	92.58
11	48.45	24	95.83
12	52.45	25	99.08
13	56.39	26+	100.00

Example

Tracey moved to New Zealand from the United Kingdom on 21 February 2006. On the 12 August 2018, she transferred $25,000 from her foreign superannuation scheme to New Zealand.

Example/cont

Exemption Period

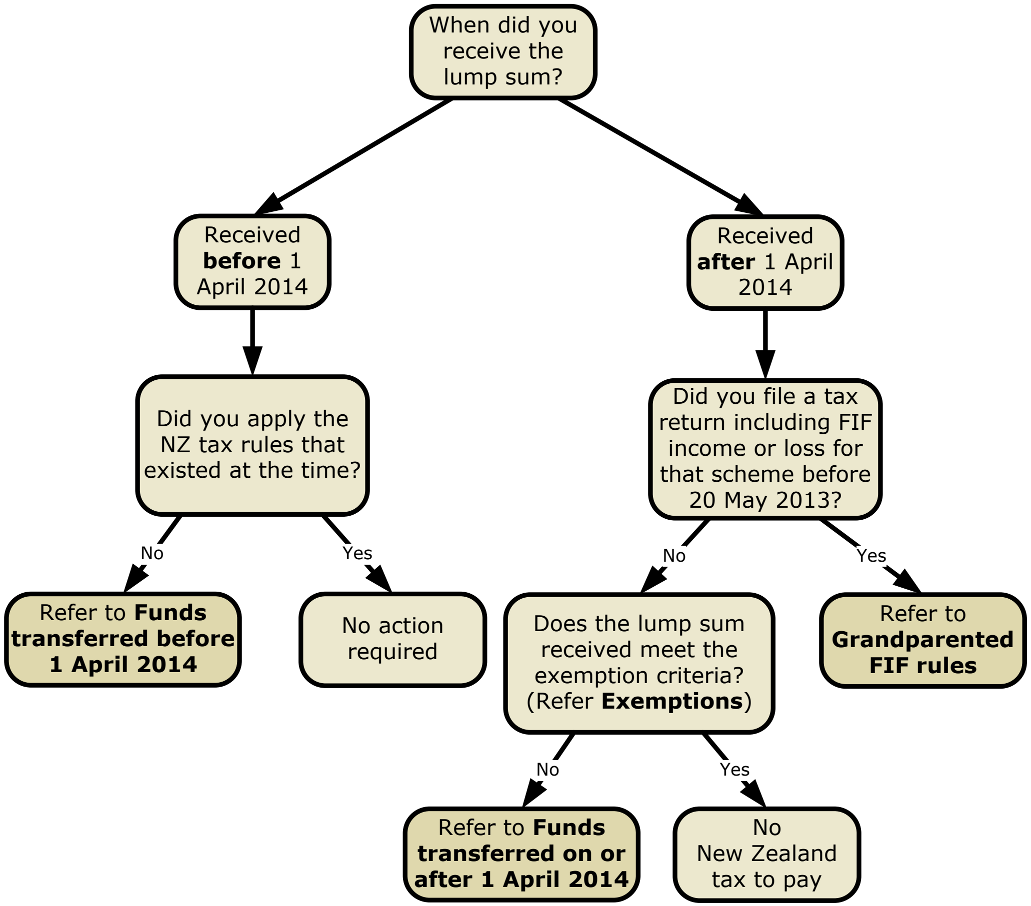
Started 21 February 2006

Ended 28 February 2010 (49 months)

9 Income Years are starting between 01.03.2010 and 12.08.2018

40.26% of the lump sum is taxable in the year ending 31 March 2019

How it works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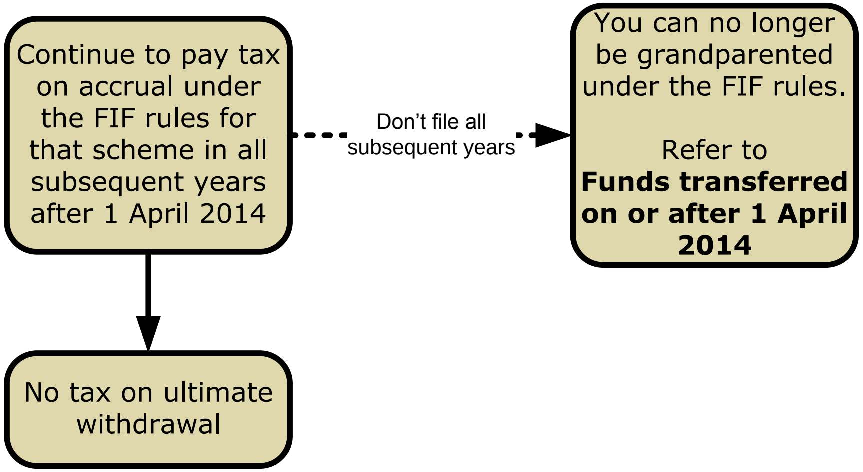
Grandparenting

- FIF rules can be applied post 1 April 2014 if a person complied with the FIF Rules pre 20 May 2013
- Income is calculated under the FIF regime and a withdrawal/transfer is not separately taxable



Example

Peter moved to New Zealand in 2002. He had filed his income tax returns to include his foreign superannuation gains and losses under the FIF rules since 1 April 2006.

Continue to pay tax on accrual under the FIF rules for that scheme in all subsequent years after 1 April 2014

Don't file all subsequent years

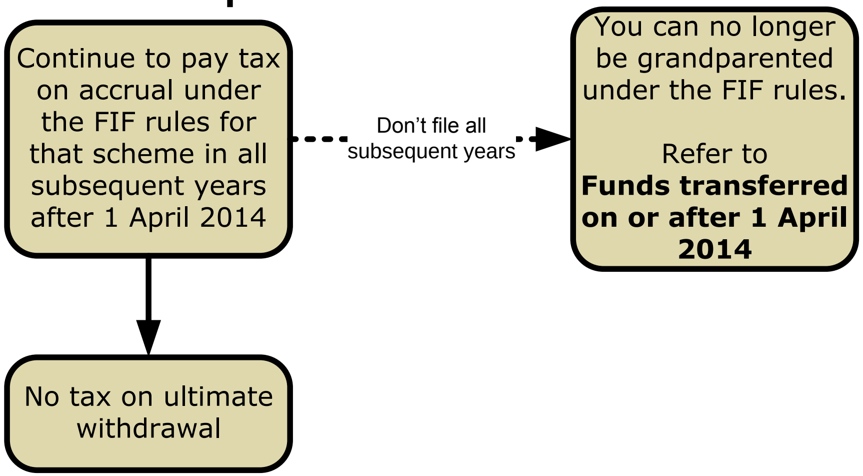
You can no longer be grandparented under the FIF rules.

Refer to **Funds transferred on or after 1 April 2014**

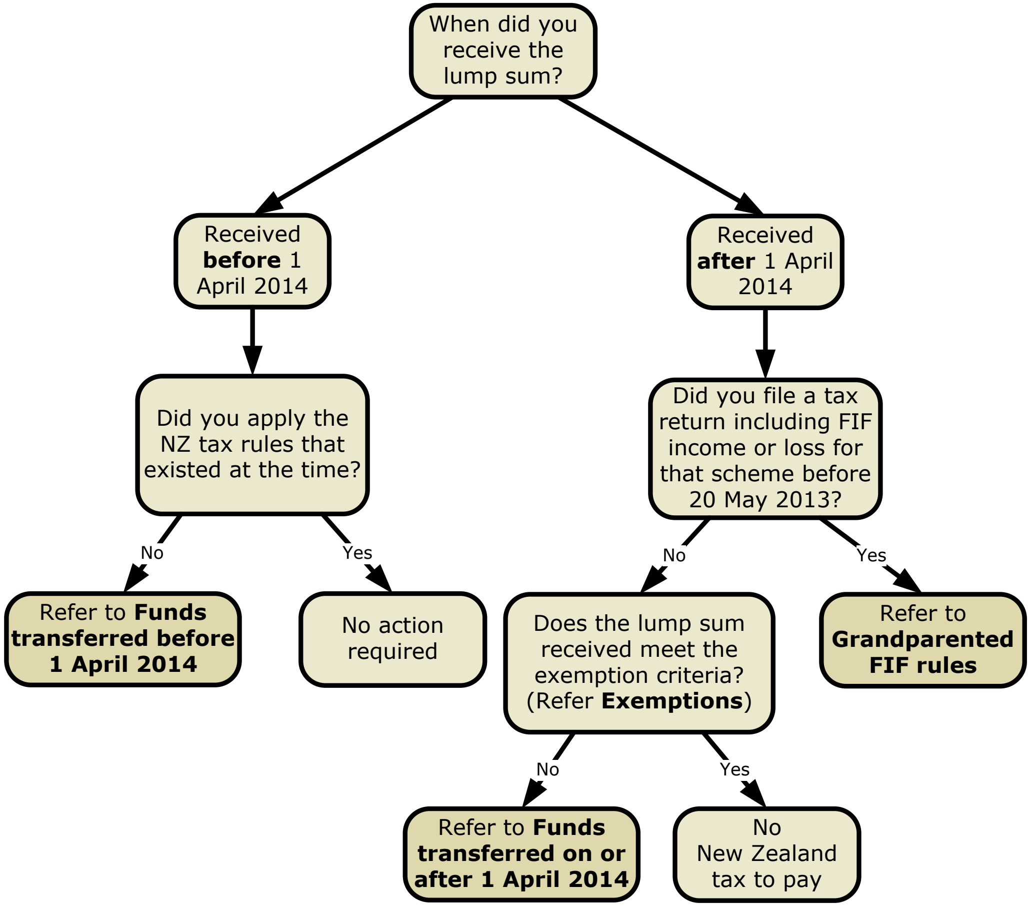
No tax on ultimate withdrawal

Decision could depend on

- Age
- Retirement Plan
- Fund Value
- Compliance Cost



How it works



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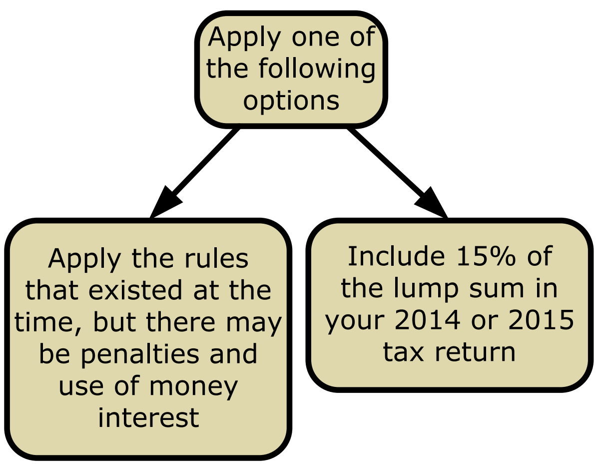
Pre 1.04.2014 - Lump Sums

- There is no further action required if the person complied with the rules at the time of transfer (eg transfer within the transitional resident period)
- All other transfers between 1.1.2000 and 31.03.2014 (application date)



Apply the tax rules at the time

- Completing tax returns for each year the scheme was a FIF, or
- Voluntarily disclose the additional FIF income, or
- Completing a tax return for the lump sum withdrawal/transfer for the year of payment if the fund was not a FIF, or
- Voluntarily disclose the additional income from the lump sum withdrawal/transfer
- Late payment penalties and use-of-money-interest may apply

15% Option

- Low compliance cost option
- Include 15% of the total amount transferred in the overseas income box (IR3) for either the year ending 31 March 2014 or 31 March 2015
- No late payment penalties and use-of-money-interest applies
- No historic FIF issues
- Additional disclosure box in the IR3 return within the overseas income key point

Example

Wendy finds out that a $600,000 lump sum she transferred to a New Zealand superannuation fund in 2002 was taxable.

Wendy does not have information about the market values of her fund.

Wendy includes 15% of the transfer ($90,000) in her 2015 income tax return as taxable income and makes the additional disclosure in her IR3 return.

KiwiSaver

- Option to withdraw funds from the KiwiSaver account to pay Inland Revenue
- Only for the tax liability or student loan obligation that arises as a result of the transfer
- Consider whether the withdrawal triggers any obligation in the source country

Double Taxation Agreements

- Most DTAs assign the taxing rights for pensions and superannuation lump sums to the residency country
- The source country therefore does not have any right to impose income tax
- Tax deducted in the source country needs to be refunded by that country
- Foreign tax credit can't be claimed in New Zealand
- FOREX exposure

Example United Kingdom

United Kingdom

Note: FTCs are foreign tax credits

	Taxable only in NZ (FTCs not available)	Taxable in both countries (FTCs available)
Periodic pensions	Yes	No
Lump sums for past employment	Yes	No
Lump sums not related to past employment	No	Yes
Government service pensions	Yes	No
Social security pensions	Yes	No

Re-Cap

- Pensions are taxed as received
- Lump sum transfers/withdrawals are taxed (schedule/formula method) when received/transferred
- Historic transfers can either use 15% option or the rules at the time of transfer
- FIF grand parenting available if complied with the rules pre 20.5.2013
- Carefully consider the DTAs

Questions?

- IR1024 – Factsheet
- Webpage (DTA Table)
- Concession Period ends with the filing of 31.3.2015