# New Zealand

## Transfer Pricing Country Profile

**Updated October 2017**

<table>
<thead>
<tr>
<th>SUMMARY</th>
<th>REFERENCE</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>The Arm’s Length Principle</strong></td>
<td></td>
</tr>
</tbody>
</table>

### 1. Does your domestic legislation or regulation make reference to the Arm’s Length Principle?

- ☑ Yes
- ☐ No


### 2. What is the role of the OECD Transfer Pricing Guidelines under your domestic legislation?

Guidance in the application and interpretation of New Zealand’s transfer pricing rules.


### 3. Does your domestic legislation or regulation provide a definition of related parties? If so, please provide the definition contained under your domestic law or regulation.

- ☑ Yes
- ☐ No

New Zealand’s transfer pricing rules apply to cross-border arrangements between associated persons, based on 50% or greater common shareholding or effective control. Section GB 2 can extend the application of sections GC 7-10 to non-associated parties where there is a collateral arrangement (such as a market-sharing arrangement, an arrangement to enter into a particular market, a back-to-back supply arrangement or an income-sharing arrangement).

Subparts YA and YB of the Income Tax Act 2007, in particular section YB 2(1)
## Transfer Pricing Methods

### 4. Does your domestic legislation provide for transfer pricing methods to be used in respect of transactions between related parties?

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
</tr>
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</table>

If affirmative, please check those provided for in your legislation:

<table>
<thead>
<tr>
<th>CUP</th>
<th>Resale Price</th>
<th>Cost Plus</th>
<th>TNMM</th>
<th>Profit Split</th>
<th>Other (If so, please describe)</th>
</tr>
</thead>
<tbody>
<tr>
<td>☒</td>
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Sections GC 13(1) and (2) of the Income Tax Act 2007

### 5. Which criterion is used in your jurisdiction for the application of transfer pricing methods?

Please check all that apply:

- ☐ Hierarchy of methods
- ☒ Most appropriate method
- ☐ Other (if so, please explain)

### 6. If your domestic legislation or regulations contain specific guidance on commodity transactions, indicate which of the following approaches is followed.

- ☐ For controlled transactions involving commodities, the guidance contained in paragraphs 2.18-2.22 of the TPG is followed.
- ☐ Domestic legislation mandates the use of a specific method for controlled transactions involving commodities (if so, please explain)
- ☒ Other (if so, please explain)

No specific guidance in domestic legislation or regulations.

## Comparability Analysis

### 7. Does your jurisdiction follow (or largely follow) the guidance on comparability analysis outlined in Chapter III of the TPG?

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
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Under section GC 13(3), the choice and application of a transfer pricing method must be made having regard to the degree of comparability between the uncontrolled transactions used for comparison and the controlled transactions of the taxpayer. New Zealand also follows closely the detailed guidance in Chapter III of the TPG.

Section GC 13(3) of the Income Tax Act 2007
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<table>
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<tbody>
<tr>
<td>8</td>
<td>Is there a preference in your jurisdiction for domestic comparables over foreign comparables?</td>
<td>☒ Yes</td>
</tr>
<tr>
<td>9</td>
<td>Does your tax administration use secret comparables for transfer pricing assessment purposes?</td>
<td>☒ Yes</td>
</tr>
<tr>
<td></td>
<td></td>
<td>It is legally possible, the domestic legislation provides for the use of secret comparables, but in practice secret comparables are not used.</td>
</tr>
<tr>
<td>10</td>
<td>Does your legislation allow or require the use of an arm’s length range and/or statistical measure for determining arm’s length remuneration?</td>
<td>☐ Yes</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Rather than requiring the use of an arm’s length range and/or statistical measures, New Zealand focuses on the reliability of a comparable or comparables. Where a range comprises results of relatively equal and highly reliable comparables, then any point in the range can be regarded as arm’s length.</td>
</tr>
<tr>
<td>11</td>
<td>Are comparability adjustments required under your domestic legislation or regulations?</td>
<td>☒ Yes</td>
</tr>
<tr>
<td></td>
<td></td>
<td>The use of comparability adjustments is justified to the extent that comparability is improved to arrive at arm’s length pricing.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Section GC 13(1) of the Income Tax Act 2007</td>
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</tbody>
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### Intangible Property

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<tbody>
<tr>
<td>12</td>
<td>Does your domestic legislation or regulations contain guidance specific to the pricing of controlled transactions involving intangibles?</td>
<td>☐ Yes</td>
</tr>
<tr>
<td></td>
<td></td>
<td>New Zealand follows the TPG.</td>
</tr>
<tr>
<td>13</td>
<td>Does your domestic legislation or regulation provide for transfer pricing rules or special measures regarding hard to value intangibles (HTVI)?</td>
<td>☒ Yes</td>
</tr>
<tr>
<td></td>
<td></td>
<td>New Zealand follows the TPG.</td>
</tr>
</tbody>
</table>
14. Are there any other rules outside transfer pricing rules that are relevant for the tax treatment of transactions involving intangibles?

- Yes
- No

A general summary is as follows:

1. Royalty expenditure must meet the requirements of the normal deductibility rules.
2. Expenditure on research and development that is regarded as a general expense for accounting purposes is generally deductible for tax purposes; profits from the sale of assets created from R&D are not generally taxed.
3. Expenditure on intangible property (such as certain capitalised development expenditure) may be depreciated if the property has a finite useful life that can be estimated with a reasonable degree of certainty on the date of its creation or acquisition.
4. Amounts derived from the sale of patent applications or rights are taxable.
5. The disposal of goodwill is not subject to income tax and the purchaser is not entitled to a tax deduction for goodwill.

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### Intra-group Services

15. Does your domestic legislation or regulations provide guidance specific to intra-group services transactions?

- Yes
- No

New Zealand follows the TPG.

16. Do you have any simplified approach for low value-adding intra-group services?

- Yes
- No

Section GC 13 of the Income Tax Act 2007: The cost-plus method with a mark-up of 7.5% may be applied in respect of charges for non-core activity services as well as services under the de minimis threshold of NZ$1m. A non-core activity is defined as an activity that is not integral to the profit-earning or economically significant activities of the group.

17. Are there any other rules outside transfer pricing rules that are relevant for the tax treatment of transactions involving services?

- Yes
- No

Service charges must meet the requirements of the normal deductibility rules.
<table>
<thead>
<tr>
<th>Cost Contribution Agreements</th>
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</table>
| 18  | Does your jurisdiction have legislation or regulations on cost contribution agreements? | ☐ Yes  
☒ No |

<table>
<thead>
<tr>
<th>Transfer Pricing Documentation</th>
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</thead>
</table>
| 19  | Does your legislation or regulations require the taxpayer to prepare transfer pricing documentation? | ☒ Yes  
☐ No |

If affirmative, please check all that apply:
- ☐ Master file consistent with Annex I to Chapter V of the TPG
- ☐ Local file consistent with Annex II to Chapter V of the TPG
- ☒ Country-by-country report consistent with Annex III to Chapter V of the TPG
- ☐ Specific transfer pricing returns (separate or annexed to the tax return)
- ☐ Other (specify): Section 17 of the Tax Administration Act 1994

| 20  | Please briefly explain the relevant requirements related to filing of transfer pricing documentation (i.e. timing for preparation or submission, languages, etc.) | There is no explicit statutory requirement in New Zealand to prepare and maintain transfer pricing documentation, but it is considered prudent to do so in order to demonstrate compliance with the arm’s-length principle. New Zealand Inland Revenue has also endorsed publicly the OECD recommendations as to the preparation of master files and local files for taxpayers with material transfer pricing risks. |

| 21  | Does your legislation provide for specific transfer pricing penalties and/or compliance incentives regarding transfer pricing documentation? | ☐ Yes  
☒ No |

General tax penalties may apply where an adjustment is made by Inland Revenue, normally 20% to 40% of the tax shortfall. Determination of the penalties focuses on culpability and the level of co-operation by the taxpayer.

| 22  | If your legislation provides for exemption from transfer pricing documentation obligations, please explain. | N/A |

New Zealand  
Updated October 2017
### Administrative Approaches to Avoiding and Resolving Disputes

23 Which mechanisms are available in your jurisdiction to prevent and/or resolve transfer pricing disputes?

Please check those that apply:
- ☒ Rulings
- ☒ Enhanced engagement programs
- ☒ Advance Pricing Agreements (APA)
  - ☒ Unilateral APAs
  - ☒ Bilateral APAs
  - ☒ Multilateral APAs
- ☒ Mutual Agreement Procedures
- ☐ Other (please specify):

### Safe Harbours and Other Simplification Measures

24 Does your jurisdiction have rules on safe harbours in respect of certain industries, types of taxpayers, or types of transactions?

- ☒ Yes
- ☐ No

Administrative practices for services/contract R&D (up to NZ$1m per year) and interest rates (principal not exceeding NZ$10m in total per year).

25 Does your jurisdiction have any other simplification measures not listed in this questionnaire? If so, please provide a brief explanation.

N/A

### Other Legislative Aspects or Administrative Procedures

26 Does your jurisdiction allow/require taxpayers to make year-end adjustments?

- ☒ Yes
- ☐ No

Year-end adjustments may be made to ensure that transfer prices and resulting taxable income are consistent with the arm’s length principle.
<table>
<thead>
<tr>
<th></th>
<th>Does your jurisdiction make secondary adjustments?</th>
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</thead>
<tbody>
<tr>
<td>☒</td>
<td>Yes</td>
</tr>
<tr>
<td>☐</td>
<td>No</td>
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</tbody>
</table>

A primary adjustment made by Inland Revenue may give rise to a deemed dividend and the potential application of non-resident withholding tax.

### Other Relevant Information

<table>
<thead>
<tr>
<th></th>
<th>Other legislative aspects or administrative procedures regarding transfer pricing</th>
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<tbody>
<tr>
<td></td>
<td>The burden of proof for transfer pricing adjustments is currently on the Commissioner of Inland Revenue.</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Other relevant information (e.g. whether your jurisdiction is preparing new transfer pricing regulations, or other relevant aspects not addressed in this questionnaire)</th>
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<tbody>
<tr>
<td></td>
<td>New Zealand is in the process of preparing new legislation. See the Government Discussion Documents issued in March 2017 entitled “BEPS – Transfer pricing and permanent establishment avoidance” and “BEPS – Strengthening our interest limitation rules”. The Government agreed to proceed with various proposals in those discussion documents, with legislation expected to be introduced this year and enacted by July 2018.</td>
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