Tax rules for foreign superannuation lump sums

Have you ever withdrawn or transferred a lump sum from a foreign superannuation scheme while you were a New Zealand tax resident? The lump sum could be taxable. This factsheet gives you an overview of the rules. For more detailed information, go to **ird.govt.nz/toii/**

If you've withdrawn or transferred a lump sum from a foreign superannuation scheme, you may need to pay income tax on the amount. How it works depends on when the lump sum was withdrawn, and how you've accounted for your scheme in the past.

Definitions

Foreign superannuation scheme: A scheme created outside New Zealand to provide people with retirement benefits (eg, United Kingdom pension schemes). This definition doesn't include schemes set up under another country's social security legislation.

Lump sum: A single payment paid to you directly, or transferred to your New Zealand or Australian superannuation scheme. A lump sum does not include a pension paid regularly to you from a foreign superannuation scheme (which is generally taxable in full when received).

Exemptions

Four-year exemption

A four-year lump sum exemption period generally applies to lump sums received on or after 1 April 2014, if you have not previously had an exemption period. The exemption period starts from the date you become a New Zealand resident. It runs until the end of 48 months from the beginning of the month after the one in which you become a New Zealand resident. If you receive a lump sum within the first four years of becoming a New Zealand tax resident, you won't have to pay tax on the amount you receive.

Australia to New Zealand transfers

The Australian transfer exemption is effective from 1 April 2010. This means that when you transfer/withdraw a lump sum from an Australian scheme into New Zealand, this is not taxable.

But if you transfer/withdraw a lump sum from a foreign superannuation scheme into an Australian scheme, this is taxable.

Foreign to foreign superannuation transfer

A transfer from a foreign superannuation scheme to another foreign superannuation scheme (that is not in Australia) is not taxable income from 1 April 2014.

Lump sum received from 1 April 2014

In most cases, you'll need to pay income tax on the lump sum, unless you qualify for an exemption. You can calculate the tax using the "schedule method" or the "formula method". The schedule method is the default method. The formula method is complex and we recommend you get advice from a tax agent.

If you accounted for the income from your scheme under the foreign investment fund (FIF) rules and filed a tax return before 20 May 2013, you can continue using the FIF rules from 1 April 2014. You won't need to pay tax under the new rules when you eventually withdraw or transfer your lump sum. If you stopped using the FIF rules you'll have to pay tax on the lump sum using the schedule or formula method after 1 April 2014.

The schedule and formula methods are only available if you were non-resident when you first acquired the rights in your scheme.

The schedule method

Under the schedule method you pay tax on a percentage of the lump sum. The percentage varies according to how long you've been a New Zealand tax resident. Follow these steps to calculate the percentage.

1. Work out the last day of your four-year exemption period. Or if you don't have an exemption period, the last day you were non-resident while holding the interest in your scheme.
2. Note the income year in which this date falls (call this year A).
3. Note the income year* in which you withdraw the lump sum (call this year B).
4. Subtract year A from year B. The resulting number gives you the "year" to use in the table over the page. (If the result is zero, you need to use year 1.)
5. Find your percentage.
6. Multiply your lump sum by this percentage.
7. Include the result in your IR3 return.

* For most people, the income year runs from 1 April to 31 March. That means their 2010 income year covered the period 1 April 2009 to 31 March 2010.

Year	Percentage %	Year	Percentage %
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

For more information on calculating your income under the schedule method, see ird.govt.nz/schedule method.

Example

Steve became a New Zealand tax resident on 21 February 2006. On 12 August 2018, he withdrew $25,000 from his foreign superannuation scheme. He made no other withdrawals, and no further contributions were made after 21 February 2006.

Steve's four-year exemption expired on 28 February 2010, which is in the 2010 income year (year A). The lump sum was withdrawn in the 2019 income year (year B). Year B (2019) – year A (2010) = 9, so the percentage to use is 40.26%. Steve must include assessable income of $10,065 in his 2019 tax return (40.26% x $25,000 = $10,065).

The formula method

You can only use this option if you have a defined contribution scheme. Under the formula method, you are taxed on the actual gains of your foreign superannuation scheme interest between the date your four-year exemption expires and the date you receive the lump sum.

For more information, go to ird.govt.nz/formula method.

Lump sum received before 1 April 2014

If you used the tax rules correctly while you were a member of the scheme, or you withdrew the lump sum during the time you qualified for a temporary tax exemption on foreign income, you won't have to pay any further tax.

Find out about eligibility for this exemption at ird.govt.nz/temporary tax exemption.

If you transferred/withdrew your lump sum between 1 January 2000 and 31 March 2014, and you did not comply with the tax rules at the time, you have two options.

- You can include as income 15% of your lump sum in your 2013–14 or 2014–15 income tax return as overseas income.
- You can ask us to amend your previous tax returns based on tax rules that applied at the time. You may be liable to pay interest and penalties. We recommend you talk to a tax agent if you're considering this option.

KiwiSaver

If you transfer a lump sum to a KiwiSaver scheme, you may have to pay income tax and student loan repayments. You can withdraw funds from your KiwiSaver account to pay Inland Revenue. Contact your scheme provider for details.

Working for Families, student loans, child support and provisional tax

Your increase in taxable income may have affected these obligations or entitlements. Go to ird.govt.nz/toii/ to find out how your lump sum affects these payments.

Double tax agreements

New Zealand may have a double tax agreement with the country that your scheme is based in.

The terms of the agreement may affect the extent to which New Zealand may tax your lump sum. These agreements also determine whether you are able to claim a foreign tax credit in your New Zealand income tax return for foreign tax paid, or if you must apply for a refund from the other country's tax authority. For more information, go to ird.govt.nz/double tax agreement.

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