

BEPS workpaper guidance

This guide is used to support compliance with base erosion and profit-shifting (BEPS) *as well as* the hybrid mismatch, thin capitalisation, and interest limitation/restricted transfer pricing rules.

The *IR1250 BEPS workpaper* should be completed when:

- You or a member of your group are subject to the hybrid mismatch rules, or
- You or a member of your group are subject to the thin capitalisation rules, or
- You or a member of your group have cross border related party borrowings of \$10m or more.

All legislative references in this document are to the Income Tax Act 2007, unless otherwise stated.

This guidance was updated by Inland Revenue (IR) in March 2025. For the 2025, and future years, a BEPS disclosure is no longer made in myIR. Information relating to BEPS, thin capitalisation and restricted transfer pricing needs to be held by you to support income tax return completion. This information should be recorded in the *IR1250 BEPS workpaper*.

The *IR1250 BEPS workpaper* is not required to be forwarded to Inland Revenue. However, we expect that customers that do need to comply with these regimes complete and retain the supporting information. The information could be requested as part of review work undertaken by Inland Revenue.

Table of contents

Complete the first section of the IR1250 workpaper 3

Complete the remainder of the IR1250 workpaper 3

Hybrid and branch mismatches 4

 Recording hybrid and branch mismatches 4

 Name of counterparty 5

 Counterparty tax ID 5

 Counterparty tax residence 5

 Type of arrangement 5

 Amount of counteraction in New Zealand under subpart FH 5

 Counteraction applied in another jurisdiction 5

 Name of the jurisdiction applying the counteraction 5

Mismatch amounts and surplus assessable income amounts 6

 Mismatch amounts 6

 Surplus assessable income 6

Thin capitalisation group information 8

 Which control threshold for members of the thin capitalisation group (section FE 27) is being used? 8

 Electing to measure your group debt percentage at a measurement date (section FE 8) 8

 Is the total interest deduction less than one of the de minimis amounts? 8

 Please list the companies that are included in the thin capitalisation group 8

 Thin capitalisation group calculation 8

 Thin capitalisation income adjustment calculated under section FE 6(2) (if an excess debt entity) 9

Interest limitation rules/ Restricted transfer pricing rules 11

 At any point during the year was there \$10 million or more of cross-border related borrowing? 11

 Did your group have a New Zealand group debt percentage for thin capitalisation purposes of 40% or higher at any measurement date during the year (section FE 12)? 11

 Group records 11

 Have you incurred interest on a cross-border related borrowing where the interest rate under an existing loan agreement has been reduced from the original interest rate in order to fall within any of the following sections? .. 11

 What is the value of non-deductible interest under each of the following sections? 12

 Have you relied on any of the following situations to allow a specific feature to be considered in pricing a cross-border related borrowing? 12

Complete the first section of the IR1250 workpaper

The first part of the *IR1250 BEPS workpaper* requires you to enter your customer information. This includes your name (or the group), IRD number, and the period that the workpaper relates to.

If the workpaper is being completed for a group, please enter the name and IRD number for all additional companies included in the workpaper. The font size in the box can be reduced to fit all required entries.

Leave boxes blank if they do not apply

For example, if you have thin capitalisation information to be included but no hybrid or branch mismatches, leave the hybrid form sections blank and proceed to the thin capitalisation parts of the workpaper.

Complete the remainder of the IR1250 workpaper

The IR1250 *BEPS workpaper* is split into four parts:

1. [Hybrid and branch mismatches](#)
2. [Mismatch amounts and surplus assessable income](#) amounts
3. [Thin capitalisation group information](#)
4. Interest limitation rules / [Restricted transfer pricing rules](#)

The rest of this document will provide information to assist in completing these sections.

Hybrid and branch mismatches

Hybrid and branch mismatch arrangements use differences in the tax treatment of an instrument, entity, or branch under the laws of two or more countries to eliminate, defer or reduce the aggregate amount of income tax payable in those countries.

The workpaper will assist you or your group with identifying hybrid and branch mismatch arrangements. you or your group have a hybrid mismatch arrangement the hybrid mismatch rules contained in sub-part FH prescribe what adjustments are required for that arrangement.

A summary table of the substantive hybrid and branch mismatch sections and the arrangements they relate to follows:

Sections	Arrangements
FH 3 and FH 4	Hybrid financial instruments, including timing mismatches
FH 5, FH 5B and FH 6	Hybrid entity and branch payment mismatches
FH 7	Payments made to reverse hybrid entities or branches
FH 8 and FH 9	Double deductions arising from hybrid entities or branches
FH 10	Double deductions arising from dual resident companies
FH 11	Imported mismatch payments
FH 12	Offsetting surplus assessable income against mismatch amounts
FH 13 and FH 14	Elections to surrender a mismatch and thereby opt out of the hybrid rules

If there is only one New Zealand entity in the New Zealand group, complete the workpaper for a single entity. If the group has one point of entry into New Zealand with one or more subsidiaries, completed the workpaper for a group.

Where a group has more than one entry point into New Zealand, for example - two subsidiaries with direct offshore shareholding or a subsidiary and a branch, a separate workpaper can be completed for each point of entry.

Recording hybrid and branch mismatches

At question 1 you will need to select which arrangement applies:

- Hybrid financial arrangement - hybrid payment
- Hybrid financial arrangement - hybrid receipt
- Hybrid entity/branch/dual resident – hybrid entities deductions/non-inclusion
- Hybrid entity/branch/dual resident – hybrid entities double deduction/double income
- Imported mismatch

In this part of the workpaper please record the types of arrangements that the group has entered and add the relevant entity name and IRD number. Multiple entities can be recorded in each box as required.

You should consider the questions in the *Hybrids compliance table* (a separate document available on our website) which will help in determining whether the hybrid and branch mismatch rules apply to the arrangements. The last column of the table identifies which type of hybrid arrangement should be recorded in the workpaper.

You may find it easier to consider the guidance questions, complete your income tax return, and then complete the *IR1250 BEPS workpaper*.

Guidance for the imported mismatch rule

There is no need to record an imported mismatch payment that is outside the scope of the imported mismatch rule because that payment has been made to an entity in a country that has its own imported mismatch rule. For more information, refer to *Operational Statement OS 21/02: Administration of the imported mismatch rule - section FH 11 - ird.govt.nz/os-21-02*.

Guidance for new hybrid or branch arrangements

Upon selecting one or more types of hybrid arrangement, you must add a new hybrid arrangement. If you have more than one hybrid arrangement, you must complete this section for each arrangement. For instance, if you have a hybrid

financial instrument and an imported mismatch, you should add a new hybrid arrangement for each of those arrangements and then the information relating to each arrangement.

Some hybrid arrangements will have features that overlap more than one arrangement type.

Name of counterparty

Hybrid mismatches usually have an entity on the other side of the arrangement. For example – a hybrid financial instrument will have a payer and a payee. If involvement in the arrangement is as the payer (for which you would be making a ‘hybrid payment’), the payee would be the counterparty.

For an entity mismatch, the counterparty may be the hybrid entity itself or the owner of the entity depending on the nature and location of the entity. Where there is more than one entity that could be a relevant counterparty, you should select the entity with which you have the closer connection. For instance, in a reverse hybrid payment mismatch to which section FH 7 would apply in New Zealand, the primary counterparty entity would be the reverse hybrid entity located in a foreign jurisdiction, rather than the owners of that entity.

For an imported mismatch arrangement, you should select the immediate payee entity (which is not necessarily one of the entities the hybrid mismatch relates to). Dual resident mismatches and branch mismatches will not usually have a counterparty. For these mismatches, the counterparty is yourself.

Counterparty tax ID

You must nominate the counterparty’s tax ID. This will typically be the Tax Identification Number (TIN) of the counterparty that is used under the OECD’s approach to the Common Reporting Standard (CRS) and Automatic Exchange of Information (AEOI). If the counterparty is the taxpayer and has its own IRD number, it is sufficient to provide that number instead of an overseas tax ID.

Counterparty tax residence

You must enter a jurisdiction that the counterparty is tax resident in. It is acceptable to enter ‘New Zealand’ if the relevant counterparty is tax resident in New Zealand (for instance, in the case of a dual resident mismatch or a branch mismatch involving a foreign branch of a New Zealand resident).

Type of arrangement

For this arrangement, you must indicate its type. Enter one of the five hybrid arrangements you selected at the question above. If the arrangement has two types that it relates to, it is sufficient to select one.

Amount of counteraction in New Zealand under subpart FH

You must disclose the counteraction effect that sections FH 3 – FH11 have had on the arrangement in the income year. This amount will be an amount of deduction denial or inclusion of income and in many cases will equal the previous amount disclosed (the amount of payment/receipt/deduction).

An amount of counteraction that is effectively reversed due to the presence of surplus assessable income (through operation of section FH 12) should still be disclosed here as there are separate mismatch amount and surplus assessable income questions later in the workpaper.

Counteraction applied in another jurisdiction

If applicable, you must also disclose whether another jurisdiction has applied a counteraction to the arrangement with their hybrid and branch mismatch rules. Enter a tick in this box where New Zealand’s hybrid and branch mismatch rules give priority to another jurisdiction’s rules to apply to the relevant arrangement. For instance, the application of sections FH 4, FH 6 and FH 9 depend on the relevant foreign jurisdiction not having hybrid rules that apply to the arrangement in the income year.

Name of the jurisdiction applying the counteraction

If you ticked the box to the preceding question in relation to this arrangement, you must notify us of the jurisdiction that applied that counteraction. If you did not tick this box, then you can leave it blank.

Mismatch amounts and surplus assessable income amounts

The next part of the hybrid and branch disclosure applies to mismatch amounts and surplus assessable income. If the arrangement you are recording is dealt with under sections FH 3, FH 4, FH 7, or FH 11 (which do not give rise to mismatch amounts), then all amounts in this part of the workpaper should be left blank for that arrangement.

This part of the workpaper should be completed for each hybrid arrangement you have created in the previous section of the *IR1250 BEPS workpaper*. Please record all instances where sections FH 5, FH 6, FH 8 to FH 10 and FH 12 apply, even if the surplus assessable income amount arising under section FH 12 is greater than the mismatch amount.

The design of the two ledgers, one for mismatch amounts and one for surplus assessable income, is intended to assist you in complying with the technical mechanics of mismatch amounts and surplus assessable income and to keep track of those amounts over multiple years.

The following tables provide guidance for what should be disclosed in each row. If a particular ledger row does not apply to your arrangement in the income year, you should disclose an amount of zero for that row. No amount disclosed for a row should be less than zero.

Mismatch amounts

Field in workpaper	Explanation
Opening balance	This is the mismatch amounts carried forward from a previous year as per section FH 12(6). For the first income year that the hybrid rules apply to an arrangement, this amount will be zero. For following years, the amount should be the closing balance amount of the prior year.
ADD: Mismatch amounts arising	This is the mismatch amounts that have arisen during the income year due to the application of sections FH 5, FH 6, FH 8, FH 9, or FH 10 in relation to the relevant mismatch situation.
LESS: Mismatch amounts set off	This is the mismatch amounts that have been set off against the person's own surplus assessable income in the income year under section FH 12(2). This amount should be equal to the amount disclosed in the "surplus assessable income set off" row below. Note that mismatch amounts set off against the surplus assessable income of a company in the same group are dealt with in a separate row below.
LESS: Mismatch amounts eliminated	This is the mismatch amounts that do not satisfy the continuity requirement for carrying forward amounts to future income years under section FH 12(8).
LESS: Stranded mismatch amounts	This is the mismatch amounts that satisfy the requirements of section FH 12(9), which applies to stranded losses.
LESS: Grouped mismatch amounts	This is the mismatch amounts that have been offset against the surplus assessable income of a company that is part of the same group, consistent with section FH 12(10). Note that the relevant group company should be separately completing this BEPS workpaper and should declare the amount under "grouped surplus assessable income" in the row below.
EQUALS: Closing balance	This is the leftover mismatch amounts for an income year. These mismatch amounts should be carried forward to the following income year.

Surplus assessable income

Field in workpaper	Explanation
Opening balance	This is the surplus assessable income carried forward from a previous year as per section FH 12(7). For the first income year that the hybrid rules apply to an arrangement, this amount will be zero. For following years, the amount should be the closing balance amount of the prior year (and equal to the "earlier" amount in section FH 12(4)(a)).
ADD: Surplus assessable income arising	This is the surplus assessable income that arises for the income year as per section FH 12(3), not including the "earlier amount" which is incorporated into the opening balance.

LESS: Surplus assessable income set off	This is surplus assessable income that has been set off against the person's own mismatch amounts in the income year under section FH 12(2). This amount should be equal to the amount disclosed in the "mismatch amounts set off" row above. Note that surplus assessable income set off against the mismatch amounts of a company in the same group are dealt with in a separate row below.
LESS: Surplus assessable income eliminated	This is surplus assessable income that does not satisfy the continuity requirement for carrying forward amounts to future income years under section FH 12(8).
LESS: Surplus assessable income tax credit	This is the surplus assessable income that would be carried forward to the next income year but for section FH 12(7)(a) which reduces surplus assessable income to be carried forward based on tax credits granted by a foreign jurisdiction.
LESS: Grouped surplus assessable income	This amount is for surplus assessable income that has been offset against the mismatch amounts of a company that is part of the same group, consistent with section FH 12(10). Note that the relevant group company should be separately completing this BEPS workpaper and should declare that grouped mismatch amount under "grouped mismatch amounts" in the row above.
EQUALS: Closing balance	This amount represents the leftover balance of surplus assessable income for an income year. This amount should be carried forward to the following income year.

Thin capitalisation group information

Leave this section of the IR1250 blank if your group is not required to comply with the thin capitalisation requirements or are a member of a New Zealand banking group.

The thin capitalisation calculations and the responses to the following questions are required on a thin capitalisation group basis. If you have completed this workpaper for one member of the group, you can leave this section blank for other members. Review section FE 2 to determine if the thin capitalisation rules apply to you.

Which control threshold for members of the thin capitalisation group (section FE 27) is being used?

You must choose a control threshold that must be applied consistently to all companies that are members of the group. The control threshold relates to the required ownership interest required to include another company in the New Zealand thin capitalisation group. Please indicate which relevant control threshold that has been chosen in the IR1250 BEPS workpaper – either more than 50%; or 66% or more.

Electing to measure your group debt percentage at a measurement date (section FE 8)

If you or your group are subject to thin capitalisation you can elect to measure your New Zealand group debt percentage either daily, at the end of each 3-month period, or the end of each income year – refer to section FE 8. The average is calculated where the daily, or three monthly, measurement basis used. The chosen date is the measurement date that will be used by the company. Groups are not required to calculate their New Zealand group debt percentage for the measurement dates that they are not using.

Is the total interest deduction less than one of the de minimis amounts?

The de minimis relates to circumstances where a thin capitalisation adjustment is not required. If the total cost of interest is \$1m and less the de minimis in section FE 6(3)(ac)(ii) may apply. If the total cost of interest is between \$1m and \$2m the amount abates. If the total cost of interest is \$2m or greater no adjustment is made.

If the outbound de minimis in section FE 5(1B) applies then a record under this part of the workpaper is not required.

Please list the companies that are included in the thin capitalisation group

Add the entity names and IRD numbers of companies that are included in the group.

Thin capitalisation group calculation

This is where the financial details are added.

Group interest expense (arising from related borrowing)

This is the total interest expense deductions of the group for the current year arising from borrowing from related parties. As with all other thin capitalisation questions in this workpaper this amount should not consider any apportionment of interest under section FE 6 for a group with a New Zealand group debt percentage above the relevant thin capitalisation threshold.

This amount should be reduced by any amounts denied as a deduction under section GC 7 that relates to the application of sections GC 15 to GC 18.

Group interest expense (other)

This is the total interest expense deductions of your group for the current year arising from borrowing that is not related borrowing. This amount would be equal to the total deduction amount in section FE 6(3)(a) less the total from the question immediately above: 'Group interest expense (arising from related borrowing)'.

Group interest-bearing debt (related borrowing)

For this question and the next four questions in this section, if you have a measurement date of daily or 3-monthly you should use the average figure from each of your measurement dates. This will be equal to total group debt as calculated under section FE 15 where the loan is related borrowing.

Group interest-bearing debt (other)

This will be equal to total group debt as calculated under section FE 15 minus the amount in the question above - 'Group interest-bearing debt (related borrowing)'.

Total debt

This is the total interest-bearing debt and is the sum of the above two amounts.

Total group assets

Please provide the total group assets figure as calculated under section FE 16.

Group 'non-debt liabilities' adjustment made to total assets for purposes of the thin capitalisation rules (section FE 16B)

Please provide the total group non-debt liabilities figure as calculated under section FE 16B.

Net group assets (total group assets less non-debt liabilities)

The net group assets are total group assets less non-debt liabilities. The thin capitalisation percentage is calculated on net assets.

On lending concession (the amount determined under section FE 13)

This is the amount that has been lent outside of the New Zealand thin capitalisation group. A market rate of interest must be received in respect of these financial arrangements. The concession amount will include funds held in a bank account.

Group debt percentage of the New Zealand group

Please provide the debt percentage of the New Zealand group as calculated under section FE 12(3). Do not include decimals.

Thin capitalisation income adjustment calculated under section FE 6(2) (if an excess debt entity)

If your New Zealand group debt percentage is greater than the threshold, you should include the amount of income under section CH 9 that is calculated under the formula in section FE 6(2).

Total deduction

This is the sum of the interest expense arising from related loans and unrelated loans. These two amounts have been included in the first two boxes of the thin capitalisation group calculation. This amount does not include interest that is payable to another member of the entities New Zealand group.

Mismatch

Mismatch is the total amount of interest payments denied as a deduction under the hybrid mismatch rules. This ensures that interest is not denied as a deduction twice. While the hybrid mismatch rules cover other types of payments, mismatch year only include interest payments denied.

Fixed-rate foreign equity (FRD)

Fixed rate equity refers to the total amount of dividends paid by the entity on fixed rate shares issued by the entity and held by New Zealand residents outside the New Zealand group.

Adjust

The adjustment component applies to de minimis thresholds for when interest needs to be apportioned. Where the total interest and FRD are \$1 million or less, the full amount is removed from the apportionment formula, resulting in no interest apportionment. Where the amounts are more than \$1 million but less than \$2 million the amount of "adjust" abates. If the total amount of \$2 million or more, adjust is zero, reflecting that the de minimis no longer applies at this level of debt.

The de minimis rules apply to both inbound and outbound excess debt entities. However, for a person subject to the inbound thin capitalisation rules, the de minimis rules do not apply if they have owner lent debt or certain related party debt. The de minimis rules were designed to reduce compliance costs for smaller firms.

Total debt

Total debt refers to the total amount of debt of the excess debt entity is New Zealand group for the income year. This is the amount has already been recorded above – just move that figure to here as well.

Concession (on-lending concession)

This is the amount of the on-lending concession.

Group debt factor

Group debt factor is one if the excess debt entity is New Zealand group has a debt percentage for the income year equal to 0, or the amount calculated by subtracting from one the taxpayer's threshold amounts divided by the group debt percentage.

Group debt percentage

Group debt percentage is the amount calculated in the thin capitalisation group calculation. This is the amount calculated in the immediately preceding area of this workpaper.

Threshold amount

Threshold amount is the debt level allowable for the New Zealand group which is the greater of 60% and 110% of the worldwide group debt percentage.

Income adjustment total

The amount of the interest apportionment that is treated as income under section CH 9 should be included here. The workpaper does not calculate this amount for you.

Interest limitation rules/Restricted transfer pricing rules

Leave this section of the IR1250 blank if you are not required to comply with the interest limitation rules / restricted transfer pricing rules.

New Zealand's Interest limitation rules, known as the restricted transfer pricing rules require related-party loans between a non-resident lender and a New Zealand resident borrower to be priced using a restricted transfer pricing approach. Under these rules, specific rules and parameters are applied to certain inbound related-party loans to:

- determine the credit rating of New Zealand borrowers at a considerable risk of BEPS, which will typically be either one or two notches below the ultimate parent's credit rating; and
- remove any features not typically found in third party debt to calculate (in combination with the credit rating rule) the appropriate amount of interest that is deductible on the debt.

Separate rules apply to financial institutions such as banks and insurance companies.

At any point during the year was there \$10 million or more of cross-border related borrowing?

Tick yes to this box if, at any point during the year, you had \$10 million or more of cross-border related borrowing as defined in section GC 6(3B). This is different from the number provided in the Group interest-bearing debt (related borrowing) in the *IR1250 BEPS workpaper* (see thin capitalisation section) as that question relates to the group whereas this question is specific to each taxpayer.

At this amount of cross-border related borrowing you would need to consider whether the interest limitation rules have application to the group, although dependent on the group's specific circumstances these rules may not impact on the amount of deductible interest.

Did your group have a New Zealand group debt percentage for thin capitalisation purposes of 40% or higher at any measurement date during the year (section FE 12)?

Tick 'Yes' or 'No'.

Group records

Please enter the name and IRD number for group members that have cross border related borrowings. Please also include the amount that each of the members have borrowed.

Have you incurred interest on a cross-border related borrowing where the interest rate under an existing loan agreement has been reduced from the original interest rate in order to fall within any of the following sections?

The purpose of this question is to identify whether a pricing change has been made in order to fall within the interest limitation rule thresholds and, as a result, all interest amounts are deductible. There are five options to choose from:

- Restricted credit rating (s. GC 16(9))
- Group credit rating (s. GC 16(10))
- Optional credit rating (s. GC 16(11))
- Insuring or lending person (s. GC 17)
- Loan features that may be disregarded (s. GC 18(3))

For each of the sections listed above please select with a tick, if, for any cross-border related borrowing that you have incurred interest during the current year, the interest rate on that borrowing has been reduced to comply with that section. This means you consider the rate of interest that the group would have paid and would have been deductible under standard transfer pricing rules for that arrangement (or feature of the arrangement) would have been higher if not for the existence of that section.

This question is only targeted at actual arrangements outstanding for any part of the year. You do not need to answer yes to the extent you repaid a loan, chose not to enter a loan, or chose not to include a feature to meet the requirements of the interest limitation rules.

What is the value of non-deductible interest under each of the following sections?

The purpose of this question is to identify non-deductible amounts under the interest limitation rules. There are five fields to add values to:

- Restricted credit rating (s. GC 16(9))
- Group credit rating (s. GC 16(10))
- Optional credit rating (s. GC 16(11))
- Insuring or lending person (s. GC 17)
- Loan Features that may be disregarded (s. GC 18(3))

For each of the sections listed above please provide, for all cross-border related borrowing that you have incurred interest during the current year, the total interest that has not been deducted because of that section.

For loans where sections GC 16(9) to (11) or GC 17 have been applied to determine an appropriate credit rating please provide the total interest that has been incurred but has not been deducted because the implied credit rating in the loan agreement is higher than that calculated under the relevant provision.

For loans with a feature disregarded under section GC 18(3) please provide the total interest that has been incurred but has not been deducted because that feature has been removed from the pricing analysis.

If you have a cross-border related borrowing that has non-deductible interest under both a credit rating and a loan features section, please record the total amount under the relevant credit rating section. It is not necessary to split out the individual credit rating and loan features effects.

Have you relied on any of the following situations to allow a specific feature to be considered in pricing a cross-border related borrowing?

There are three options to choose from:

- Term of loan adjustment (s. GC 18(8))
- Features reflecting other borrowing (s. GC 18(9))
- Borrowing required for some insuring or lending persons (s. GC 18(10))

Please tick the box for each of the above sections if there is one or more loans with a feature listed in section GC 18(3) that has been included in the pricing analysis for one or more of the following reasons:

- There is third party debt with a contractual term of greater than 5 years.
- There is third party debt with the same feature; or
- You are an insuring or lending person and the feature was included to satisfy regulatory or solvency requirements set by the Reserve Bank.