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26 May 2026

Dear Haydn,

Approved issuer levy simplification and integrity measures

Thank you for the opportunity to comment on the targeted consultation on **Approved issuer levy simplification and integrity measures** prior to its finalisation.

CPA Australia represents the diverse interests of more than 176,000 members, including over 3,500 members in New Zealand, working in over a 100 countries and regions supported by 19 offices around the world. We make this submission on behalf of our members and in the broader public interest.

Executive summary

CPA Australia supports reforms that simplify the approved issuer levy (AIL) regime while preserving its integrity. In particular, we support:

- a higher filing threshold, preferably paired with annual filing, to better align compliance obligations with the low-value nature of many AIL liabilities and reduce unnecessary administrative costs for smaller borrowers.
- allowing deregistration of approved issuer securities as an integrity measure, provided any such power is accompanied by clear statutory safeguards, including objective criteria, a right to cure, and certainty around the meaning of serious default or neglect.

Key responses at a glance

We make the following key responses to the seven consultation questions:

- Q1: increasing the biannual filing threshold should simplify the regime and reduce compliance costs, particularly for smaller borrowers, especially if paired with annual filing.
- Q2: our preferred threshold is $5,000, as this provides meaningful relief and better reflects the low value nature of many AIL liabilities.
- Q3: moving to annual filing would materially reduce compliance costs by aligning AIL reporting with year-end processes and reducing ongoing monitoring.
- Q4: allowing deregistration of registered securities is an appropriate integrity measure, provided it is supported by clear safeguards and objective criteria.
- Q5: the meaning of serious default or neglect should be clarified through objective thresholds, exclusion of genuine disputes, and a statutory right to cure.
- Q6: additional public guidance would help, but it would not be sufficient on its own without supporting legislative protections and procedural clarity.
- Q7: the reforms should reduce AIL compliance costs and friction in accessing offshore capital, avoid contagion risk within corporate groups, and preserve commercial certainty while strengthening integrity.

Please refer to the Appendix for our response to the questions raised in the consultation paper. If you have any queries about this submission, please contact me on jenny.wong@cpaaustralia.com.au or Bill Leung, Tax Technical Advisor on bill.leung@cpaaustralia.com.au.

Yours sincerely,

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Acknowledgements

CPA Australia would like to acknowledge the following Tax Committee members for their input and guidance in shaping this submission:

- Mr Angus Ogilvie FCPA (Aust.), Chair of Tax Committee – New Zealand
- Mr Jeffrey Owens FCPA (Aust.), Tax Committee – New Zealand
- Mr Darshana Elwela – Tax Committee – New Zealand
- Mr Richard Ashby CPA (Aust.), Tax Committee – New Zealand
- Mr Jamil Eldar, CPA (Aust.), Tax Committee – New Zealand
- Professor Adrian Sawyer, FCPA (Aust.), Tax Committee – New Zealand
- Mr Peter Loerscher, CPA (Aust.), Tax Committee – New Zealand
- Mr Mark Davies, CPA (Aust.), Tax Committee – New Zealand

Appendix

Detailed discussion

Response to consultation questions

Q1. Do you think increasing the biannual filing threshold will simplify the AIL regime and help reduce compliance costs? Why/why not?

Increasing the biannual filing threshold is expected to simplify the regime and reduce compliance costs for smaller borrowers. However, whether it represents the right move depends on how it balances administrative relief against Inland Revenue (IR)'s cash flow tracking and macro-economic data collection.

Here is a breakdown of how we consider why this measure works well in theory, and where the real-world friction lies:

Why it will reduce compliance costs
For small borrowers, the administrative effort required to comply with a tax regime is often completely disproportionate to the actual tax dollar value being paid. Increasing the threshold from $500 to a higher tier (like $1,000, $2,000 or $5,000) offers several immediate benefits:

- **Fewer administrative touchpoints**
  Shifting from monthly filing to six-monthly filing removes up to ten filing cycles a year. For a small business, each cycle requires generating reports, filling out IR67A/IR67P forms, calculating exchange rates, and executing payments.
- **Lower professional fees**
  It is expected that many small borrowers rely on external accountants to handle their specialised non-resident tax obligations. Fewer filing deadlines directly translate to lower billable hours and reduced compliance overhead.
- **Elimination of "micro-payments"**
  Processing transactions for negligible amounts of tax is inefficient for both the borrower's accounts payable team and presumably IR's processing systems.

The catch: why it might not be a perfect fix
While the compliance savings are real, we submit raising the threshold introduces a few structural issues that needs to be considered:

1. The "lumpy" interest problem
AIL is paid on interest. Unlike standard recurring expenses, cross-border related-party debt or private loans often feature irregular, lumpy payment schedules (e.g., annual or semi-annual interest payments). If a borrower has a single large interest payment in a year that triggers more than $500 (or $1,000) in AIL, they might suddenly breach the threshold unexpectedly, forcing them back into monthly filing.

2. Pairing with option 2 (annual filing) is necessary
Simply increasing the biannual threshold helps, but we submit the “true” compliance reduction occurs if IR pairs it with Option 2 (annual filing). Moving small, low risk filers to a single annual return aligns neatly with their standard end-of-year financial reporting cycle, turning AIL compliance into a once a year checklist item rather than an ongoing operational burden.

Our view: a balanced trade-off
This proposal signals IR’s acknowledgement of the Proportionality Principle:

Compliance Cost ≤ Tax Revenue Raised

When a borrower spends more money in accounting hours to file a return than the actual value of the levy paid to the government, the tax system is inefficient. Because AIL is a flat 2 per cent levy, a $500 threshold represents

$25,000 in interest paid to non-residents annually. Raising that threshold to $5,000 means companies paying up to $250,000 in annual interest could benefit from simplified filing.

For the government, the risk of deferred revenue collection on these smaller amounts is presumably low, making it a highly logical trade-off to free up administrative capacity for both businesses and tax auditors.

Q2. What is your preferred increase to the filing threshold?

From a tax policy and economic efficiency standpoint, we submit raising the threshold to $5,000 paired with an option for annual filing is the most effective choice.

We outline below why pushing the threshold to the highest proposed level makes the most sense:

1. It achieves meaningful proportionality
Because AIL is a flat 2 per cent levy, the current $500 threshold triggers monthly filing obligations for anyone paying more than just $25,000 in interest per year to overseas lenders:

- A $1,000 threshold only protects those paying up to $50,000 in interest.
- A $2,000 threshold only protects those paying up to $100,000 in interest.
- A $5,000 threshold covers businesses paying up to $250,000 in interest annually.

For small to medium enterprises (SMEs) or primary producers managing boutique cross-border loans, a $250,000 interest cap captures a significant portion of standard commercial funding. This should ensure the compliance relief reaches the businesses that actually feel the weight of administrative overhead the most.

2. Micro-revenues cost more to collect
For IR, processing, auditing, and chasing monthly or even biannual filings that yield less than $5,000 a year presumably is not cost effective. The administrative salary hours spent by the state reviewing these small accounts can easily 'consume' the actual revenue raised. We submit shifting these filers out of the frequent reporting pool frees up IR resource to focus on high risk, large scale international tax compliance.

3. Maximising the benefit of annual filing
If the threshold is only raised marginally (e.g., to $1,000), many businesses will constantly hover near the threshold, shifting back and forth between filing frequencies if interest rates fluctuate or a payment schedule changes. We submit a clean $5,000 threshold creates a stable buffer. When paired with Option 2 (Annual Filing), it allows a business to align its AIL reporting with its standard end of year income tax preparation, essentially reducing their compliance routine to a single annual event. By choosing the highest threshold, this should maximise the reduction of friction in the economy while taking on negligible risk to the government's overall tax take.
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Q3. Do you think moving to an annual filing threshold will simplify the AIL regime and help reduce compliance costs? Why/why not?

Moving to an annual filing threshold (Option 2) should drastically simplify the AIL regime and cut compliance costs for smaller borrowers. While raising the threshold amount (Option 1) reduces the "frequency" of paperwork, we submit it is the shift to annual filing that actually alters the administrative burden for a business. The rationale for this equates to alignment, predictability, and eliminating constant monitoring.

Why it will help reduce compliance costs
1. Synchronisation with year-end accounts
Small to medium businesses and primary producers do not typically run complex international tax reconciliations every six months. They do it once a year when preparing their annual financial statements and income tax returns:

- **The current system** forces them to open up their books mid-year specifically to handle a low value, niche levy.

- **An annual return** allows a business to roll AIL compliance into their existing year-end accounting workflow. They calculate the total interest paid to the non-resident lender over the fiscal year, apply the 2 per cent levy, file one form, and make one payment.

2. Elimination of the "boundary hopping" administration
Under a biannual system, if a borrower's interest payments fluctuate, perhaps due to variable interest rates or a delayed payment from an overseas associate, they risk accidentally breaching the six-monthly threshold. This requires constantly monitoring whether they need to switch back to monthly filing. An annual threshold provides a stable, long term window, eliminating the need for regular boundary checking.

3. Compounding savings on professional fees
For small borrowers who outsource their tax compliance, paying an external accountant twice a year to file a form for a tiny amount of tax is highly inefficient. Shifting to an annual cycle cuts the external professional fees associated with form preparation, sign off, and filing in half.

Why it might not be a perfect fix
While the benefits heavily outweigh the downsides, two potential points of friction remain:

- **The foreign exchange (FX) math**
  Because AIL is calculated on interest paid, and cross-border loans are typically denominated in foreign currencies, an annual filer has to convert those interest amounts to New Zealand Dollars (NZD). Tracking the mid-month or actual exchange rates across a full 12-month period retrospectively can sometimes be slightly more tedious at year-end than doing it in shorter, six-month blocks. However, using IR's approved annual average exchange rates (if permitted for the annual AIL calculation) would entirely eliminate this issue.

- **Cash flow budgeting**
  For very small operators, paying a year's worth of accumulated AIL in one single lump sum, rather than spreading it across two smaller biannual payments, requires slightly better cash-flow planning, though for businesses under a $1,000 or $5,000 threshold, the total dollar value remains relatively low.

Our view
Raising the financial threshold to $5,000 means very little if businesses still have to file multiple times a year. True tax simplification relies on reducing the "frequency" of interaction with the tax department. Pairing a higher threshold with a single, annual year-end filing turns AIL from an active operational headache into a minor, once a year administrative checkbox.

Q4. Would allowing for the deregistration of registered securities be an appropriate measure to increase integrity within the AIL regime?

We submit allowing for the deregistration of registered securities is not just an appropriate measure, it is a highly necessary fix if IR genuinely wants to create a credible enforcement tool. Under the current legislative framework, the AIL regime suffers from a severe, structural "integrity asymmetry" that completely undermines the threat of enforcement. We analyse below why this change is appropriate, the commercial risks it introduces, and why defining "poor compliance" is the real linchpin of the policy.

The current integrity flaw: the "grandfathering" loophole
At present, Section 32M(5) of the *Tax Administration Act 1994* acts as a permanent shield for historical debt. If a borrower exhibits severe non-compliance (e.g., repeatedly failing to pay their taxes or engage with auditors), the Commissioner can revoke their "approved issuer" status. However, that revocation only blocks them from registering "new' loans. The existing registered securities are grandfathered. This creates two distinct integrity risks:

1. **Zero incentive for ongoing compliance**
   Once a borrower has successfully registered a long-term, multi-million dollar bond or loan facility, they retain the concessional 2 per cent AIL rate for the life of that debt (which could be 10 to 30 years), regardless of how poorly they behave across the rest of their tax affairs. The threat of losing approved issuer status is functionally ineffective for an entity that does not plan to take on new cross-border debt anytime soon.

2. **The government subsidises non-compliance**

The whole point of the AIL regime is to lower the cost of capital for “compliant” borrowers to stimulate economic investment. Allowing non-compliant entities to continue avoiding the standard 10 – 15 percent Non-Resident Withholding Tax (NRWT) creates an unfair commercial advantage over businesses that diligently comply with the rules.

Allowing IR to deregister existing securities solves this immediately by making the consequence of "serious default or neglect" immediate and financially material.

The counterargument: commercial certainty and sovereign risk
While the integrity argument is indisputable from a tax collection perspective, we understand the reason the law was originally written this way comes down to “commercial certainty”.

Cross-border commercial lending agreements are highly sensitive to sudden changes in net yield. If a foreign institutional lender is funding a project in New Zealand, the loan contract almost always includes a “gross-up clause”. This clause states that if New Zealand's tax laws change, or if a levy is replaced by a higher withholding tax, the “borrower” must absorb that cost, so the lender’s net return remains identical. If a security is deregistered, the tax rate increases from 2 per cent AIL to 10 – 15 per cent NRWT.

Because of gross-up clauses, this 8 – 13 per cent financial penalty will likely fall on the New Zealand borrower. If a borrower's corporate group behaves poorly in an unrelated tax matter (e.g., a dispute over GST or corporate income tax), the sudden deregistration of their debt security could trigger an overnight cashflow shock, potentially causing technical defaults under their wider banking covenants.

The solution: clarity on "serious default or neglect"
Because the financial penalty of deregistering a security is so severe, this measure is only appropriate if IR provides absolute, objective clarity on what triggers it under Section 32M(3). If the threshold for "poor compliance" remains subjective or opaque, it introduces too much volatility into corporate financing. To make this an appropriate, balanced policy, we submit IR should establish a clear, tiered enforcement process:

1. **Objective triggers**
   "Serious default" should be explicitly linked to prolonged, un-remedied omissions (e.g., failing to file returns for multiple consecutive periods or ignoring binding reassessments) rather than minor administrative errors or honest, technical disputes over complex tax positions. This is fundamentally a call for greater certainty for borrowers and international lenders, and our support for a higher filing threshold promotes efficiency in the tax system.

2. **Mandatory warning/remedy windows**
   Borrowers must be given a statutory "Right to Cure" window (e.g., 30 or 60 days following a formal warning letter) to correct the default or establish a binding payment plan before the extreme option of security deregistration is deployed.

Our view
This is an appropriate and overdue measure. Without the power to deregister securities, IR is essentially fighting tax non-compliance with a blunt instrument. We believe that, as long as it is paired with clear, safe harbour guidelines on what constitutes "serious default," this change should substantially increase the integrity of the regime without unfairly penalising normal commercial operations. The arguments above for clarity, consultation, and safeguards align with the principles of the Generic Tax Policy Process (GTPP).

Q5. Should the meaning of “serious default or neglect” be clarified for the purposes of deregistration? If so, how?

We submit the meaning of "serious default or neglect" must be explicitly clarified in legislation or a binding Standard Practice Statement (SPS) if security deregistration is introduced. This is because deregistering a security forces a massive overnight tax spike, increasing from 2 per cent AIL to 10 –15 per cent NRWT, leaving the definition open to interpretation creates a level of commercial uncertainty that could scare off international lenders or lead to protracted legal disputes.

To ensure the measure drives tax compliance without penalising honest businesses facing operational hiccups, IR should clarify the threshold using an objective, multi-tiered framework (see below).

How it should be clarified
Instead of relying on the current subjective list of "factors considered," the definition should be codified to distinguish between genuine, systemic non-compliance and minor administrative delays.

1. Define clear quantitative "safe harbours"
The rules should specify exactly what constitutes "serious" based on time frames and dollar values. For example:

- **Time-based defaults:** A default only becomes "serious" if a return or payment is un-remedied for more than 90 days past its due date.
- **Volume-based neglect:** A pattern of neglect could be defined as failing to file or pay three or more times within a rolling 24-month period.

This removes the guesswork for taxpayers and ensures an entity is not threatened with deregistration over a single missed deadline caused by a staff transition or software glitch.

2. Exclude legitimate dispositions and honest disputes
A sharp line must be drawn between an entity that is wilfully ignoring its obligations and one that is engaged in a technical dispute with Inland Revenue.

- If a borrower is actively using the formal disputes resolution procedures (e.g., challenging an assessment via a Notice of proposed adjustment – IR770), that specific dispute should never count toward "serious default or neglect."
- Taxpayers must not have the extreme option of security deregistration used as leverage by the IR during a legitimate technical tax disagreement.

3. Introduce a statutory "right to cure" window
The most practical way to clarify the application of the law is to build a mandatory, sequential warning process directly into Section 32M of the *Tax Administration Act 1994*:

Level 1: Draft notification
Inland Revenue identifies potential serious default. Issues formal notice detailing the breach.

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Level 2: The "cure" window
The borrower is granted a statutory 30 or 60 days to either pay the debt, enter a binding instalment arrangement, or fix the omission.

▼

Level 3: Enforcement action
Only if the "cure window" expires with zero engagement or remedy can IR revoke status and deregister the securities.

4. Create a clear nexus to the offending entity
In complex corporate structures or multinational setups, a subsidiary operating a (primary production) asset or project might have its debt registered under one entity, while a completely separate branch handles GST or corporate income tax.

- The clarification should outline whether a default in an “unrelated” tax type (like a payroll tax dispute in a sister company) can trigger deregistration of a financing security in the borrowing entity.
- Ideally, the "neglect" should have a direct or material nexus to international funding, withholding taxes, or systemic corporate-wide tax evasion.

Summary of the ideal approach

Current approach (subjective)	Proposed clarified approach (objective)
IR weighs the "period, size, and nature" case by case.	Hard quantitative floors (e.g., >90 days late, >3 omissions).
Handled via standard administrative correspondence.	A mandatory, statutory 30/60-day "right to cure" warning period.
Mixed signals on how technical disputes affect status.	Explicit exclusion of active, formal tax disputes from counting as default.

By shifting from a vague assessment of "factors" to a transparent, step-by-step compliance pathway, we submit IR can successfully protect the integrity of the government's revenue while preserving the commercial certainty required for international investment.

Q6. Would additional public guidance on the meaning of "serious default or neglect" provide sufficient clarity?

Additional public guidance on the meaning of "serious default or neglect", such as an updated IR SPS or a dedicated Tax Information Bulletin (TIB) item, which is a highly practical tool, but it is only part of the equation. Whether it provides "sufficient" clarity depends entirely on whether it is paired with statutory procedural guardrails.

The advantages of public guidance
Issuing comprehensive administrative guidance has distinct operational advantages for both the government and corporate tax teams:

- **Illustrative, real-world examples:** Guidance allows IR to publish specific "use cases" and operational matrices. For instance, it can explicitly state that an ongoing, good-faith technical dispute over a complex transfer pricing arrangement does "not" constitute neglect, whereas failing to respond to three consecutive statutory demands regarding unpaid GST "does".
- **Flexibility and agility:** Tax administration moves faster than the legislative cycle. If economic conditions change or a new corporate avoidance scheme emerges, updating an IR SPS is significantly faster than passing an amendment through parliament.
- **Clear administrative transparency:** It gives tax agents and corporate treasurers a direct look at the checklist an IR auditor uses before recommending that a borrower's status be revoked under section 32M(3).

Why public guidance alone is insufficient
Despite these benefits, administrative guidance suffers from legal and commercial structural limitations that prevent it from being a complete solution when the stakes are high:

1. It lacks the force of law
Public guidance is merely IR's "interpretation" of the law; it does not bind the courts, nor does it strictly bind a future Commissioner who may choose to interpret the phrase more aggressively. Because the financial penalty of deregistration is a major sudden increase (from 2 per cent AIL to 10 –15 per cent NRWT), institutional international lenders require statutory certainty, not just administrative comfort. If a lender sees that their gross-up clause could be triggered based on a subjective, non-binding guideline, they may price that risk into higher interest rates for New Zealand borrowers.

2. It cannot grant a legal "right to cure"
Guidance can outline what IR "intends" to do, but it cannot create legal rights where the underlying statute is silent. If section 32M of the *Tax Administration Act 1994* does not legally mandate a 30- or 60-day warning and remediation window, a piece of public guidance cannot fundamentally alter the fact that a borrower has no legal right to pause an abrupt revocation.

3. It does not resolve the corporate group" contagion risk
Only legislation can clearly establish the "nexus rules" of non-compliance. Guidance cannot easily draw a firm legal boundary around whether a serious default by a sister company or a parent entity can legally trigger the deregistration of a security held by a compliant, ring-fenced borrowing subsidiary.

The recommended mix: a two-tiered approach
To achieve "sufficient" clarity without making the tax rules overly rigid, New Zealand should ideally deploy a two-tiered clarity model:

Tier 1: Legislative amendment (the skeleton)
Legislate mandatory procedural rights in the *Tax Administration Act 1994*:

- A statutory 30- or 60-day "right to cure" warning period.
- A clear rule that active, formal tax disputes are excluded.

▼

Tier 2: Public guidance/SPS (the muscle)
Flesh out the operational specifics:

- Multi-period default thresholds (e.g., missed filings).
- Mitigating factors (e.g., system migrations, natural disasters).
- Internal IRD sign-off escalation protocols.

By putting the core procedural protections and strict boundaries into the statute itself, and leaving the operational examples and shifting timeframes to public guidance, we submit IR can provide the absolute commercial certainty

international capital markets require while maintaining the flexibility needed to enforce tax integrity. With the introduction of new legislation, there is the need for post-implementation review. This aligns with the final stage of the GTPP, where the effectiveness of new legislation is formally assessed.

Q7. Do you have any other comments?

We suggest three broader, interconnected points are worth keeping in mind regarding how these proposals fit into New Zealand's wider macro-tax strategy and commercial reality.

1. The interaction with the total cost of capital
It is vital to recognise that AIL is fundamentally a borrower-side economic burden. Because it is structured as a domestic levy rather than an income tax, foreign lenders generally cannot claim a foreign tax credit for AIL in their home jurisdictions. As a result, the 2 per cent cost is almost universally absorbed by the New Zealand borrower via "gross-up" clauses.

When analysing compliance costs, it is not just about the time spent filling out forms, it is about the friction added to securing offshore capital. Pushing for the maximum filing simplification (Option 1 and 2 paired together) actively lowers the administrative friction of importing foreign capital for small-to-medium enterprises and primary producers who lack the large tax departments of multinational corporations.

2. Guarding against "contagion risk" in corporate groups
If IR proceeds with the deregistration of securities (Option 3), a critical detail for the legislative drafting will be how "the borrower" is defined within corporate groups. It is common for a single multinational group or a large multi-entity business to have a dedicated financing subsidiary (a "FinCo") that registers securities and handles group debt, while separate operating subsidiaries handle day to day trade, GST, or PAYE.

If an operating subsidiary experiences a severe tax dispute or default, the policy must clarify whether that "liability" can transfer to FinCo, triggering a security deregistration. If it can, the commercial risk multiplies significantly. IR will need to explicitly decide whether "serious default or neglect" looks strictly at the specific entity that registered the security, or if it applies a broader "associated persons" lens.

3. Alignment with IR's macro strategy
These IR proposals align with the strategic direction seen in the recently enacted *Taxation (Annual Rates for 2025–26, Compliance Simplification, and Remedial Measures) Act 2026* and IR's long-term policy goals. IR's current focus is heavily weighted toward asymmetric enforcement: reducing the administrative burden to near zero for low risk, small scale filers, while simultaneously sharpening its regulatory enforcement power (such as the proposed deregistration mechanism) to police systemic non-compliance.

By treating AIL as a single year-end reporting item for small borrowers, we submit the government sacrifices a negligible, delayed cash-flow stream in exchange for a substantial decrease in administrative burden, allowing its audit resources to pivot where they matter most.

4. AIL registration compliance costs

Most of the migrating population might have issues with selling their private home offshore, or they have ten-, twenty- or thirty-year residential mortgage agreements with very low interest costs (sometimes as low as 0.5 per cent) and they rent these properties out as the finance is so low. It is also important to remember that most European countries have had very low finance rates in the last ten years, and these are the mortgage finances our members currently see. Once the transitional tax residence ends, they need to register their mortgage as a security. Considering the low amount of interest rate, the compliance cost is very high in contrast to the benefit to New Zealand.

While IR no longer request translated copies of the financial agreements, there is still the requirements that these should be translated into English. One of our members had a case around two years ago where the translation cost for the client NZ$5,000 and the AIL was $200 per annum. As New Zealand is a capital importing jurisdiction, the New Zealand taxpayer has to finance the additional interest cost imposed by NRWT and AIL. As such, we should have a de minimis threshold applied to AIL registration for ordinary labour migration.