Inland Revenue
Te Tari Taake

FACT SHEET | PUKA MEKA

Income tax – Share investments (dividends and taxable share sales)

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IS 24/10 FS 2

This fact sheet accompanies IS 24/10 Income tax – Share investments that considers the income tax issues that arise for individual share investors. If you are not subject to the FIF rules, for example if you hold shares in a New Zealand company or if all your foreign shares and other attributing interests cost you less than $50,000 in total to buy, this fact sheet explains when you have to return income from dividends or taxable share sales.

Introduction | Whakataki

1. If you hold shares in a foreign company, you first need to read IS 24/10 FS 1 **Income tax – Share investments (whether the FIF rules apply)** to decide whether the FIF rules apply to you. This fact sheet does not apply if you are subject to the FIF rules.
2. If you are in the ordinary tax rules, you may receive the following types of taxable income:
   - dividends; and
   - amounts received from sales of shares if you bought those shares for the dominant purpose of disposing of them, or as part of a share dealing business or profit-making scheme.
3. This fact sheet explains when you need to return income from dividends and taxable share sales in an IR 3 individual income tax return.

Dividends

4. When a dividend is paid by a:
   - New Zealand company; or
   - foreign company but a New Zealand custodian holds the shares on your behalf;

   tax is withheld on your behalf by the company or custodian. You need to check that any amounts pre-populated in your individual income tax assessment or IR 3 individual income tax return are correct. If the amounts are incorrect, then you need to include any missing amounts. If the amount withheld is less than your marginal tax rate, you need to pay the difference.
5. Investors with foreign dividends need to file an IR 3 individual income tax return and that will link to an IR 1261 overseas income summary to declare your overseas income sources and claim any foreign tax credits. The amount of dividend to include is the New Zealand dollar amount, calculated at the time the dividend is paid to you. If withholding tax on the dividend was paid overseas, you can claim a tax credit against your New Zealand tax liability (so you are not taxed twice on the same amount). If a double tax agreement (DTA) applies, the amount of foreign tax credit you can claim is limited to the amount of foreign withholding tax payable under that DTA.
6. You need to include income from foreign dividends in a return only if the total amount of all your income that is not reportable income for that income year is $200 or more. Reportable income is typically income where tax is withheld by the payer (for example, PAYE on salary and wages, interest, and dividends paid by New Zealand companies).

The $200 threshold applies to all amounts that are not reportable income (for example, foreign dividends and taxable share sales).

For information on how to file a return and report your overseas income, visit these Inland Revenue webpages:

Complete my individual income tax return - IR3

Reporting your overseas income

If you receive foreign dividends, assistance for finding out the New Zealand dollar amount is on Inland Revenue's website - Overseas currency - conversion to NZ dollars

For information on claiming foreign tax credits, see IS 21/09 - **Income tax – foreign tax credits – how to calculate a foreign tax credit.**

Example | Tauira 1 – Dividends from a foreign company

Bob uses an online investment platform to buy shares in US Co. Bob provided his IRD number and tax residency information to the platform to make sure he qualifies for the DTA withholding rate. The platform uses US Broker, a United States based custodian service.

In March 2023 Bob was entitled to a dividend of US$100. US Broker withheld tax in the United States at the DTA rate of 15%. The platform provided Bob with the following information:

US dividends	**31 March 2023**
US Co gross dividend	US$100
US withholding tax paid	US$15
US net dividend received	US$85

The platform is not a New Zealand custodian. Bob uses an approved foreign exchange source and works out he has a gross dividend of NZ$160.51 and a foreign tax credit of NZ$24.08.

In the 2023 income year, Bob also earned $5,000 from taxable sales of New Zealand shares and Bitcoin. Bob needs to file an IR 3 individual income tax return and include the dividend in his total overseas income (as well as the Bitcoin and share sale income as other income). Bob needs to file an IR 1261 overseas income summary to account for his foreign dividend and claim the foreign tax credit.

If the platform was a New Zealand custodian, it must withhold RWT on Bob's behalf. The dividend information is pre-populated in Bob's IR 3 individual income tax return, and Bob needs to file an IR 1261 overseas income summary to claim the foreign tax credit.

Taxable share sales

7. The following information explains when share sales are taxable.

8. If you carry on a business of share dealing you will have taxable income from your business activities. Even when you don't have a share dealing business, you will have taxable income from share sales if you bought shares for the purpose of disposing of them (for example, selling them).

9. For share sales to be taxable because the shares were bought for the purpose of disposal, the purpose of disposal needs to be your dominant purpose for buying the shares. Sales will not be taxable if you had several purposes for buying the shares and sale is not the dominant purpose, or if you had no purpose in mind at the time you bought them.

10. A dominant purpose of disposal is more than a vague or general idea that you might sell shares in the future. For example, a sale of shares will not be taxable if you bought the shares because you wanted dividends and/or to hold the shares for a long-term investment, and you thought you might possibly sell the shares at some point in the future. You need to be able to show whether you did or did not have a dominant purpose of disposal at the time you acquired the shares.

11. While you have to show that your dominant purpose for buying shares was not to sell them, you do not have to provide a different purpose. However, share sales are not taxable if you can show that you bought shares for the dominant purpose of:
    - receiving dividend income;
    - receiving voting interests or other rights provided by shares; or
    - a long-term investment, growth in assets or portfolio diversification (other than situations where, at the time of acquisition, this is planned to be achieved through sale).

12. When Inland Revenue is considering whether you bought shares for the purpose of disposing of them, we do this in two steps. The first step is to consider what you say your purpose was (as above). The second step is to then consider the surrounding factors to see whether they support what you say your purpose was. This includes:

- **the nature of the asset** (for example, the type of shares purchased and what rights they give you);
- **the length of time you held the shares** (for example, if you only held the shares for a short time before selling them this could indicate you bought them for resale, or if you held them for a longer term this could indicate you bought them for a long-term investment);
- **the surrounding circumstances of a sale** (for example, if you bought shares when the market was low and sold when the market was high this could indicate sale was your dominant purpose for buying the shares, but if you sold the shares to fund an unexpected expense this could indicate that the sale was not your dominant purpose for buying those shares); and
- **the pattern of activity** (for example, if you made several short-term sales of shares, this pattern could indicate that you bought the shares for sale).

13. You need to be able to show whether you did or did not acquire shares for the dominant purpose of disposal. There is no bright-line test for share sales, so there is no set amount of time or number of trades required. It is advisable that you keep records to support your purpose at the time you bought shares. This could include:
    - information obtained from companies, platforms or brokers when deciding what shares to buy;
    - a record of your purpose at the time of acquisition (eg, contemporaneous file notes or emails);
    - where applicable, an investment plan and any notes from financial advisors if you have one;
    - where relevant, information on expected dividend yields; and
    - lending records if funds were borrowed to invest.
14. If you hold some shares for sale and some for long-term investment, it would be advisable for these to be held in separate accounts where that is possible.
15. Also, records of reasons for sales may help show that sales are consistent with the stated purpose, for example:
    - where sales are made as part of rebalancing a portfolio, an explanation of what the rebalancing is achieving and how this relates to your investment plan; or
    - where there is a change of circumstances (such as your personal or financial circumstances, or you no longer support the company's policies, or the investment is not performing to your expectation).

16. Contemporaneous records as set out above can be helpful but not determinative, and the particular circumstances still need to be tested objectively.

Examples

17. The following examples illustrate some situations where share sales will be taxable and some situations where share sales will not be taxable.

Example | Tauira 2 – Shares bought for profit on sale

In early 2024, Charlie used an online investment platform regularly. Charlie bought and sold a few shares in New Zealand companies every now and again with an eye on sales profits. He didn't consider dividend policies, and preferred shares in companies that reinvested profits. Charlie was prepared to take risks and searched for companies on the platform by applying a "highest price change" filter. Charlie would sell shares when he considered the price was high.

The nature of the shares acquired, the length of time held and the pattern of activity indicate that Charlie acquired the shares for the dominant purpose of disposal. Charlie did not have any evidence that his dominant purpose for buying these shares was not disposal, and he also did not have any other explanations for the sales. Accordingly, the amount Charlie receives from these sales will be taxable.

Example | Tauira 3 – Change of purpose from sale to long-term investment

In 2021, Olive started using an online investment platform. She used a filter to sort various New Zealand companies by the highest price change, as she was looking to earn extra money by selling shares for profit.

After a few months Olive changed her mind and decided to hold on to her shares for a long-term investment.

Two years later, Olive had a change of circumstances and had to sell the shares. Because Olive bought her shares for the purpose of selling them, the amount she receives from the later sale of the shares will be taxable. It is Olive's purpose at the time she bought the shares that determines whether sales are taxable.

Example | Tauira 4 – change of purpose from long-term investment to sale

In 2023, Jin bought shares in a tech company because he was interested in the products the company made, and also thought the shares would be a good long-term investment to add to his portfolio. Jin had discussed this with his financial advisor, and Jin's advisor had kept notes of Jin's investment plan, including for the tech company shares.

The following year the tech company's leadership changed, and Jin did not support the direction the company was moving in. Jin decided to sell his shares and invest his funds elsewhere.

The amount Jin receives from selling these shares is not taxable. Jin's purpose at the time he bought the shares determines whether the share sales are taxable. Jin's investment plan, recorded reasons discussed with his investment advisor for the initial purchase, and reasons for the sale of these shares support his position.

Example | Tauira 5 – Sale not dominant purpose

Steve started using an online investment platform to invest in shares. He wanted to invest in ethical companies to support those companies, but also still provide a good return in some way.

He undertakes research before purchasing shares, focusing on the companies' ethical and sustainability policies as well as dividend history and the growth in share prices over the last few years. Steve keeps records of this research.

At the time of purchase, Steve is not certain about how long he will hold the shares for. Two years later, he decides to sell his portfolio and sells the shares for a profit.

The sale of these shares is not taxable. While two years is not a long-term investment, Steve had several purposes for buying the shares, including that he wanted to support an ethical and sustainable company, was seeking dividends and also growth in value of the shares. While sale was a possibility, he did not have a dominant purpose of sale at the time he bought the shares. Steve can show this through his research and his stated purpose is consistent with the shares that he bought.

Example | Tauira 6 – Different purposes for different shares

Megan started buying shares using an online investment platform during lockdown in 2020. In April 2020, Megan purchased:

$1,000 shares in A Co; and

$1,000 shares in B Co

Megan bought the shares in A Co because they paid a dividend yield of 6.5%. She wanted an investment that earned a regular income. Megan bought the shares in B Co, a pharmaceutical company, because she heard from her neighbour (a fund manager) that pharmaceutical companies would be good short-term investments. When she bought them, Megan recorded her research and reasons for purchasing each type of share.

In March 2021, Megan's neighbour thought the market was close to peak and Megan sold the shares in B Co for $1,800 - a gain of $800. Later that month, Megan decided to invest into a managed fund instead, so she sold her remaining shares (A Co) for $1,100 and made a gain of $100. Megan invested all proceeds into a managed fund.

Megan made an overall gain of $900 from share sales in A Co and B Co (the amount received less the cost of the shares sold). However, she needs to return income only on the gain of $800 from selling the shares in B Co. The amount she received from the sale of shares in A Co is not taxable because she acquired those shares for the purpose of earning dividends (even though she later changed her mind). Megan's research of companies with high dividend yields is supported by the type of shares in A Co she acquired.

Example | Tauira 7 – Purpose of sale to achieve a particular goal

Sally had funds in a term deposit that paid a low interest rate and was looking to increase the value of her investment to help fund a house deposit. She discussed her financial situation with her bank and was told the amount of deposit she would need for the home loan she required.

Sally was concerned that high inflation and low interest rates would mean she would be worse off once she was ready to purchase a house. When her term deposit matured, despite realising the risks involved in share investment, Sally decided to invest her deposit with an online investment platform in a combination of high growth and high dividend earning shares.

Two years later, the value of Sally's investment was sufficient for a house deposit, and Sally sold all her shares.

Sally's dominant purpose for buying the shares was to raise funds to increase the value of her house deposit. She could achieve that only by selling the shares. Therefore, selling the shares is her dominant purpose. The gains made on the share sales are taxable.

Example | Tauira 8 – Shares acquired for long-term investment

Logan owned a large share portfolio that he had been adding to over the years. Some shares paid regular dividends that were re-invested, but most investments were in high growth shares that had not paid dividends. He had recently retired and was living off superannuation and the occasional maturity of term deposits. He thought he may also sell some investments depending on his financial needs. However, ultimately Logan wanted to build up his asset profile so he would have an inheritance he could eventually pass on to his children and grandchildren.

Logan did not think of his share portfolio as something he would necessarily sell, but he thought sale may be required in the future depending on his financial position.

Logan had unexpected medical issues and sold some of his shares to fund expenses. The sale of those shares is not taxable. Logan bought the shares with the purpose of building up a portfolio that may, but would not necessarily, be sold. His change of circumstances does not alter that purpose on acquisition. The possibility that shares will be sold does not mean he has a dominant purpose of disposal.

Example | Tauira 9 – Sales to ensure high dividend yield

Frankie holds a portfolio of shares on an online investment platform, with dividend yields ranging from 4 to 6%. She wants to maintain a steady income from her portfolio.

Frankie researched shares with high dividend yields on the platform she uses. Frankie discovered A Co which paid regular dividends of 6.5%.

Frankie sold shares in Y Co, which had paid dividends at the lower end of her target range. She used the funds from that sale to buy the shares in A Co.

Frankie said she originally acquired the shares in Y Co for the dominant purpose of receiving dividends, without planning to sell those shares. Her actions in selling shares in Y Co to acquire shares in A Co with a higher dividend yield support that purpose. The amount she receives from the sale of Y Co shares is not taxable.

If Frankie later sells the shares in A Co, the amount she receives from this sale will also not be taxable as she bought those shares for the dominant purpose of deriving dividend income.

Example | Tauira 10 – Sales to rebalance portfolio

Marama's financial advisor manages her investment portfolio according to an investment plan. Marama's plan aims to build a long-term investment portfolio, allowing her to draw down funds if required. She has a moderate risk appetite, with a smaller portion of her investment being in US and Australian stocks and the balance spread across fixed interest, property, cash and New Zealand dividend shares.

As part of this portfolio, Marama held shares in Aus Co. Aus Co significantly out-performed expectations, and Marama's portfolio became more heavily weighted toward US and Australian stocks, increasing the risk beyond what the investment plan specified. To bring the portfolio back within target ranges, Marama's advisor sold 25% of the shares in Aus Co. The proceeds were reinvested into lower risk investment assets, aligning with her long-term investment plan.

The sales of shares in Aus Co are not taxable because they were acquired as part of a long-term investment portfolio. The sales were made to adhere to the investment plan, and to maintain required levels of risk and asset allocations. This remains the case even if sales of investment assets occur regularly as part of the overall management and review of Marama's portfolio.

However, if some shares within Marama's portfolio were acquired for the dominant purpose of disposal, such as for a quick gain for reinvestment into other assets, sales of those shares would be taxable.

Example | Tauira 11 – Insufficient scale to be a business, but dominant purpose of disposal

Hone started using an online investment platform in November 2020. Over the next few months he enjoyed making trades and started investing more time and money into buying shares.

Hone was employed for 30 hours a week and spent his free time making trades. Hone had invested around $20,000 in the share market and used the profits from sales to supplement his living costs and re-invest in more shares.

Hone typically didn't hold shares for more than a few months, unless he thought that they would peak in value at a later time. He didn't plan to hold any shares long-term and didn't consider dividends when purchasing shares.

Hone has an intention to profit from share sales, but his level of activity, and amount of time and money spent on the share market does not indicate that he is in a business of share dealing. His level of activity does not indicate that he has an organised plan that amounts to a profit-making undertaking or scheme.

While he may not be in a business of share dealing, the amounts Hone receives from his share sales are still taxable because the facts indicate that he acquired shares for the dominant purpose of disposal.

Claiming expenses

18. You may incur various expenses when you invest in shares:
    - the cost of acquiring the shares (ie, the purchase price and transaction fees);
    - fees charged by platforms, brokers or financial advisors; and
    - interest on funds borrowed to buy shares.
19. Deductibility of these expenses depends on whether there is a nexus with income and also whether the expenses are capital in nature:
    - If you have taxable share sales, you can claim a deduction for the cost of acquiring the shares (including transaction fees for the acquisition). This deduction is available in the income year in which you sell the shares.
    - If your share sales are not taxable (for example, the shares are acquired for dividends or a long-term investment) then the cost of acquiring the shares is not deductible.

20. Interest you incur on funds borrowed to buy shares is deductible where the funds are used to purchase:

- shares acquired for the purpose of sale, a share dealing business, or a profit-making undertaking or scheme, or
- shares that earn income through dividends. Dividends do not have to be earned every year that interest is payable, but there must be a reasonable expectation that the shares will pay dividends.

21. You will need to be able to show that the borrowed funds were used to purchase the shares. This could include a contemporaneous bank statement showing the funds leaving the loan account and a buy order for shares of the same amount. You will also need to be able to show that the shares are held on revenue account or there is an expectation of dividends.

22. If you use the same facility for buying shares and for other investments or expenses, you need to be able to prove the amount of interest that relates to the shares. This can be difficult where a facility is used for multiple uses and where there are repayments and new drawdowns. To ensure you can prove your interest is deductible, if possible, it would be advisable to keep borrowings for shares and for other investments or expenses separate.

Losses

23. Where shares are taxable on sale but are sold for less than what they cost, you can claim that loss. The amount of loss relates to the difference between the sale price and the cost of the shares. It does not apply to any unrealised losses (for example, if the shares had gone down in value but you still own the shares).

24. In some cases, if you have claimed a loss relating to share sales, the Commissioner may seek information to show that shares were held on revenue account. Depending on the circumstances, this could include ensuring you have consistently treated any profitable sales as being taxable.

Example | Tauira 12 – Realised and unrealised losses

In November 2021, Jimi bought $1,000 of shares in B Co using an online investment platform. He bought the B Co shares hoping to make a quick profit and kept records of this purpose.

However, by the time Jimi bought the shares the market had turned. In January 2022 the shares were worth $800.

Scenario one

Jimi sold the shares to limit the loss. Because Jimi had bought the shares in B Co for the purpose of sale, the amount received of $800 is income. However, this is offset by the deduction he receives for the cost of the shares and transaction fees totalling $1,020. Therefore, Jimi made a $220 loss. He can claim this loss against his other income.

Scenario two

Jimi holds onto his shares in B Co. By 31 March 2022, the share value had decreased further to $700. Jimi was calculating his taxable income for the year ended 31 March 2022. However, in doing so, Jimi cannot claim the unrealised loss for the cost of the shares in B Co because he still has them. He can claim a loss only if he sold (or otherwise disposed of) his shares.

About this document | Mō tēnei tuhinga

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