Inland Revenue
Te Tari Taake

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Look-through companies

A guide to the look-through company rules

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Introduction

This guide contains information for look-through companies (LTCs).

An LTC is a look-through income tax treatment for close companies that elect to use these rules, which means that the company is "looked-through" for income tax purposes. The shareholders of the LTC become liable for income tax on the LTC's profits, while also being able to offset the LTC's losses against any other income.

We provide an explanation of terms used throughout this guide that may be new to you, or used differently from their everyday meaning - see page 21.

For more information see **Tax Information Bulletins Vol 23, No 1 (February 2011)** and **Vol 29, No 5 (June 2017)**.

Following a law change in March 2017 a number of changes have been made to the LTC rules. The changes apply for the 2017-18 and later income years unless otherwise stated.

- The way that beneficiaries are counted for the purposes of determining the number of look-through counted owners has been broadened.
- Charities and Māori authorities are precluded from being LTC owners, directly or indirectly, subject to certain exemptions and grandparenting.
- Trusts with look-through interests in an LTC are precluded from making distributions to beneficiaries who are companies.
- The foreign income that a foreign-owned LTC can earn annually is limited. This applies for income years beginning on or after 1 April 2017.
- The restriction that requires an LTC to have only one class of shares is relaxed.

All of the changes above are discussed in more detail in Part 2.

- The formula to determine the untaxed reserves of an existing company that becomes an LTC has been changed - see Part 6.
- The loss limitation rule has been removed for most LTCs - see Part 7.

LTCs and residential property

If you're thinking about forming an LTC for residential property, you need to know about the possible tax consequences of doing this.

The expenses of living in the family home are normally treated as private expenditure and aren't tax deductible.

Problems arise when owners live in a home owned by their LTC and claim deductions (eg, interest, insurance, rates and maintenance) for the property. In many situations, the structuring and claiming of any resulting losses may be seen as tax avoidance.

You may believe that if you continue to pay market rent to the company you can keep claiming these LTC losses against your income. But, we may still see this arrangement as tax avoidance.

The same principle applies if you use a similar structure such as a company, partnership or trust.

Tax avoidance carries penalties of up to 100% of the tax shortfall.

Living temporarily in a property owned by your LTC

From time to time an owner will move into a home owned by their LTC which was previously rented, because, for example:

- they cannot find tenants
- a relationship breaks down
- they form a relationship with tenants
- they're renovating or building their own home.

But, if you live in the property and you're an owner, you generally cannot continue to claim what would otherwise be private expenses.

Get advice before you act

Generally, we'd consider any arrangements like the one described above to be tax avoidance and we'd disallow any deductions claimed by the LTC's owners relating to the family home. Penalties could also apply.

We strongly recommend you talk to a tax professional with expertise in this area if you're considering such an arrangement.

Part 1 - Look-through companies (LTCs)

The following are the main features of an LTC:

- An LTC must be a resident in New Zealand.
- It must have five or fewer look-through counted owners (treating related owners as one) - see Part 2.
- Only a natural person, trustee or another LTC can hold shares in an LTC. There are special requirements for shares in an LTC depending on when the company is an LTC - see page 9.
- All owners must elect for the company to become an LTC - see Part 3.
- Once a company becomes an LTC it will remain so unless one of the owners decides to revoke the LTC election, or it ceases to be eligible to be an LTC - see Part 4.
- Generally, an LTC's income, expenses, tax credits, gains and losses are passed on to its owners. These are allocated to owners in proportion to the number of shares they have in the LTC. Owners can also deduct expenditure incurred by the LTC before they became an owner, if they pass certain tests - see Part 5.
- Any profit is included in an owner's tax return and forms part of the owner's taxable income. The owner can use any losses against their other income, unless the loss limitation rule applies - see Part 7.
- The loss limitation rule ensures that losses claimed reflect the owner's economic loss in the LTC. This rule no longer applies for most LTCs for the 2017-18 and later income years.
- The owners of an LTC are treated as holding the LTC's property directly in proportion to their shareholding. When owners sell their shares they are generally treated as disposing of their share in this property and may have to pay tax associated with this, if certain thresholds are exceeded - see Part 8.
- If the company is liquidated or ceases to be an LTC but otherwise continues in business, the owners are considered to have disposed of their shares at market value.
- Look-through applies for income tax purposes only. Under company law an LTC retains its corporate obligations and benefits, such as limited liability.
- An LTC is still recognised separately from its shareholders for:
  - GST (goods and services tax)
  - PAYE and employer tax responsibilities
  - FBT (fringe benefit tax)
  - RWT and NRWT (resident and non-resident withholding tax)
  - ESCT (employer superannuation contribution tax) and RSCT (retirement scheme contribution tax)
  - the income tax rules for company amalgamations.

Differences between an LTC and a company

	LTC	Company
Requirements		
Shareholding	Shareholders in an LTC must be either natural persons or trustees (including corporate trustees). An ordinary company cannot hold shares in an LTC. Another LTC can hold shares in an LTC. For the 2016-17 and earlier income years, an LTC could only have one class of shares with the same voting rights. For the 2017-18 and later income years, an LTC can have more than one class of shares, provided the shares all carry the same proportional rights to distributions from the LTC.	None
Foreign company	Cannot be an LTC.	Can be a New Zealand resident company
Distributions		
Dividends	Not taxable, as income of LTC will be "looked-through" to establish owner's income.	Taxable
Shareholder-employee salaries	Owners of a look-through interest in an LTC cannot receive shareholder-employee salaries. Instead, payments to a working owner are included in the owner's salary or wages and the PAYE rules apply - see Part 5 on page 14. Payments to working owners are deductible to all owners of an LTC, in proportion to their effective look-through interest.	Deductible to the company and assessable to the shareholder-employees. May not be subject to PAYE rules.
Imputation credits received	Passed through to look-through owners.	Credit to imputation credit account (ICA) and offset against tax liability
Share sales or repurchases	Look-through owners treated as disposing of, or acquiring, the underlying LTC property and need to account for tax on the disposal (subject to certain thresholds)	General rules apply
Income, losses and expenditure		
Income	Passed on to look-through owners in proportion to their effective look-through interest in the LTC.	General rules apply
Expenditure and losses	Passed on to look-through owners in proportion to their effective look-through interest in the LTC. A loss limitation rule applies to losses from an LTC.	General rules apply
Loss offsets and subvention payments.	LTCs cannot group with other companies to receive a loss offset or make a subvention payment.	General rules apply
Imputation		
Imputation credit account (ICA)	LTCs do not keep an ICA.	Keeps an ICA unless excluded

Part 2 - Who can become an LTC

An LTC must meet all these requirements for the whole of the income year:

- The entity must be a company (ie, a body corporate or entity with a legal existence separate from that of its members).
- The company must be a New Zealand tax resident and not treated as a non-resident under any double tax agreement.
- All owners must have only look-through interests. There are special requirements for look-through interests depending on when the company is an LTC - see page 9.
- There must be five or fewer look-through counted owners. Look-through counted owners must be either natural persons or trustees (including corporate trustees). There are special rules for determining the number of look-through counted owners - see “Look-through counted owners test”.
- It must not be a flat-owning company.

Additional criteria that apply for the 2017-18 and later income years

- It must not have an owner which is a tax charity or Māori authority, unless the tax charity or Māori authority are grandparented - see page 21.
- If the total ownership interests in the LTC are more than 50% held by foreign LTC holders the LTC must not have a foreign-sourced amount for the income year that is more than the greater of:
  - $10,000, or
  - 20% of the LTC's gross income for the year.

Note

The foreign income restriction only applies for income years beginning on or after 1 April 2017.

If the LTC has an owner who is a trustee the trust cannot:

- make a distribution to a company or Māori authority (unless the Māori authority is a grandparented Māori authority) which is directly or indirectly a beneficiary of the trust
- make a distribution of income to a tax charity, unless the tax charity has no control or influence in relation to distributions from the trust or the operation of the LTC.

If an LTC does not meet these conditions at any stage during the income year it loses its LTC status, starting from the first day of the income year it did not meet the conditions.

It then will not be able to use the LTC rules for that income year, or for either of the two following income years.

Foreign income restriction

This rule restricts the amount of foreign income an LTC can have for an income year. The rule applies only to LTCs that are more than 50% owned by foreign LTC holders.

A "foreign LTC holder" is a person who is either a:

- non-resident for tax purposes
- trustee of a trust if the trust has a non-resident settlor, but only to the extent that the settlements made on the trust are by non-resident settlors. Settlements arising from services provided for at less than market value are ignored.

A "foreign-sourced amount" is an amount of income that is not treated as having a source in New Zealand under sections YD 4 and YZ 1 of the Income Tax Act 2007.

We recommend discussing your circumstances with a tax professional if you could be affected by these rules.

Example: foreign income restriction does not apply

An LTC is equally owned by two separate trusts, Trust A (a foreign trust) and Trust B. Trust A is a foreign LTC holder while Trust B was settled by a New Zealand resident.

The foreign income restriction does not apply to the LTC because the total ownership interests held by Trust A are 50%. For the foreign income restriction to apply in this example, Trust A would need to have total ownership interests of more than 50% in the LTC.

Example: foreign income restriction does apply

An LTC is owned by Trust A.

The settlements made on Trust A are as follows:

Value of settlement (NZ$)	Residency of the settlor at the time of settlement
$75,000	Non-resident for tax purposes
$25,000	Resident for tax purposes
$100,000	

The foreign income restriction will apply for this LTC because 75% of the ownership interests are considered to be held by foreign LTC holders (ie 75,000/100,000).

If the LTC's gross income for the year was $100,000 and more than $20,000 of this was a foreign-sourced amount the LTC would no longer meet the eligibility criteria.

Look-through counted owner test

An LTC must have five or fewer "look-through counted owners". Look-through counted ownership is related to shareholding, but applies specifically to the counted owners test. Not every look-through counted owner needs to own shares directly in the LTC, eg when the shares are owned by a trustee or another LTC.

The look-through counted owner test determines the number of look-through owners a company has for the purposes of the LTC rules. The test does this by identifying the relationships between individual shareholders, and by looking through trustee shareholders to the natural person beneficiaries of the trust, or through a shareholding LTC to the ultimate natural person or trustee shareholders.

Most LTCs will find it quite easy to work out that they meet this test. For example, an LTC that has three individual shareholders clearly has less than five look-through counted owners. Companies that have more than five individual shareholders, or that include trustee shareholders or shares held by another LTC, need to consider the look-through counted owner test.

We recommend talking with a tax professional if you're unclear how many look-through counted owners an LTC has.

Related shareholders

Related shareholders are counted as a single owner for this test.

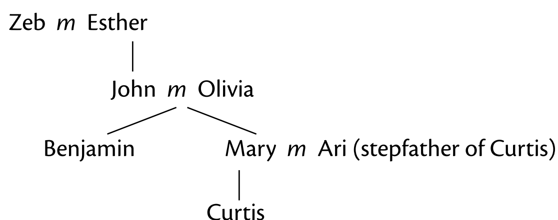
Related means:

- a blood relationship (to the second degree)
- a marriage, civil union or de facto relationship, or being in a marriage, civil union or de facto relationship to the second degree of blood relationship of another shareholder
- an adopted child and their adoptee
- a step-parent and a step-child.

Death, or dissolution of marriage, civil union or de facto relationship does not break the two-degree test, provided the company was an LTC and the shareholders were counted as one look-through owner before the death or dissolution.

To clarify the degrees of separation in a relationship between individual shareholders, create a family tree and count the steps back to a common ancestor and then forward to the other person. Each link is a one-degree relationship. Shareholder relationships with two degrees of separation between them are still counted as one look-through owner.

Example 1: Natural person shareholders



If Zeb, Esther, Benjamin, Mary, Ari and Curtis all held shares in a company they would be counted as a single look-through counted owner because they're related to each other (through Mary) within two degrees.

If only Ari, Esther and Curtis held shares they would be counted as two look-through counted owners, because although Ari, as his stepfather, is related to Curtis within two degrees, neither of them are related to Esther within two degrees, as she is Curtis's great grandmother and Ari's grandmother in law.

Trustee shareholders

The look-through counted owner test must also be applied if a trustee holds shares in an LTC. This test looks through to the natural person beneficiaries of the trust, which may also include looking through any corporate beneficiaries to that company's shareholders.

A beneficiary of a trust is counted as a look-through counted owner if they have had any income from the LTC treated as beneficiary income in the current income year, or in any of the three preceding income years.

For the 2017-18 and later income years a beneficiary of a trust will be a look-through counted owner if they receive a distribution from the trust. All distributions are counted, including the allocation of beneficiary income that is not sourced from an LTC, and distributions of trustee income accumulated in previous years, trust corpus and capital. If the distribution is sourced from income derived by the trust before the 2017-18 income year, the distribution is not counted and this test will not apply.

Beneficiaries are counted whether they have a direct or indirect beneficial interest in a look-through interest in an LTC. An example of how this works is explained on page 9.

Example 1: Beneficiaries of a trustee owner with no income sourced from an LTC

A company became an LTC from the beginning of the 2017 income year. The LTC is 100% owned by Trust A. Trust A has five beneficiaries, none of whom are related. Below is a summary of the trust's distributions for the 2017, 2018 and 2019 income years. None of the distributions from the trust were sourced from the LTC.

Income year	Beneficiaries	Distribution
2017	Ben, Emily, Linda	Distribution of rental income derived by the trust in the 2017 income year.
2018	Geoff	Distribution of interest income derived by the trust in the 2018 income year.
2019	Henry	Distribution of rental and dividend income derived by the trust in the 2019 income year.

In 2017 there is one look-through counted owner - Trust A. Trust A's beneficiaries are not look-through counted owners because the distribution they received was not from LTC sourced income.

In 2018 there is one look-through counted owner - Geoff. Geoff is a look-through counted owner because he received a distribution of income derived by the trust in the 2018 income year. It does not matter than the distribution was made from income that was not sourced from the LTC.

In 2019 there is two look-through counted owners - Geoff and Henry. Henry is a look-through counted owner because he received a distribution of income derived by the trust in the 2019 income year. Geoff is also a look-through counted owner because he received a distribution from Trust A in the previous income year.

Trust A is not a look-through counted owner in the 2018 or 2019 income years, because in each year the trust had a beneficiary who was a look-through counted owner.

Corporate beneficiaries

If a company is the beneficiary of a trust and has received income from the LTC as beneficiary income in that income year, or in any of the three preceding income years, the company itself is not seen as a look-through counted owner. Instead, every natural person who has a voting interest (or market value interest, if a market value circumstance exists) in relation to that company is counted as a separate look-through counted owner.

This test no longer applies from the 2020 - 21 income year because after the 2016-17 income year when a trustee owner makes a distribution to a beneficiary which is a company the LTC no longer meets the eligibility criteria.

Note

You can be both a trustee of a trust that owns shares in a LTC, and also own shares in the LTC directly.

Similarly, you could be a trustee of a trust that own shares in an LTC, and also be a beneficiary of that trust.

This means you could be counted twice as a look-through counted owner; once as the trustee of the shareholding trust, and the second time as the look-through counted individual or beneficiary owner.

All the trustees of a trust are counted as one look-through counted owner. Under the old rules, this applies where a trust has not distributed, as beneficiary income, all income sourced from the LTC in the current year and all of the three previous income years. Under the new rules, this applies if the trust has no beneficiary that is a look-through counted owner.

Example 2: Beneficiaries of a trustee shareholder before the 2017-18 income year

All the shares in an LTC are held by Trust A.

Trust A distributes all of the income from the LTC to the following beneficiaries:

Income year	Beneficiaries:
2013, 2014, 2015	Tara and Marley
2016	Elizabeth, Marley and Ursula (Marley's sister)
2017	Sarah, Peter and Max (Tara's son)

In 2013, 2014 and 2015 there are two look-through counted owners because between them, Tara and Marley received all the LTC's income as beneficiary income.

In 2016 there are three look-through counted owners - Tara, Elizabeth, and Marley and Ursula. Because Ursula is Marley's sister (two-degree blood relative) they're counted as one owner.

In 2017 there are five look-through counted owners, because the test considers who received beneficiary income in the current income year (2017), and any of the three preceding income years (2014, 2015 and 2016). The look-through counted owners are:

- Tara/Max (counted as one)
- Elizabeth
- Ursula/Marley (counted as one)
- Sarah
- Peter.

Note

For the 2017-18 and later income years the look-through counted owners test no longer requires that distributions made to beneficiaries are sourced from an LTC.

LTC shareholders

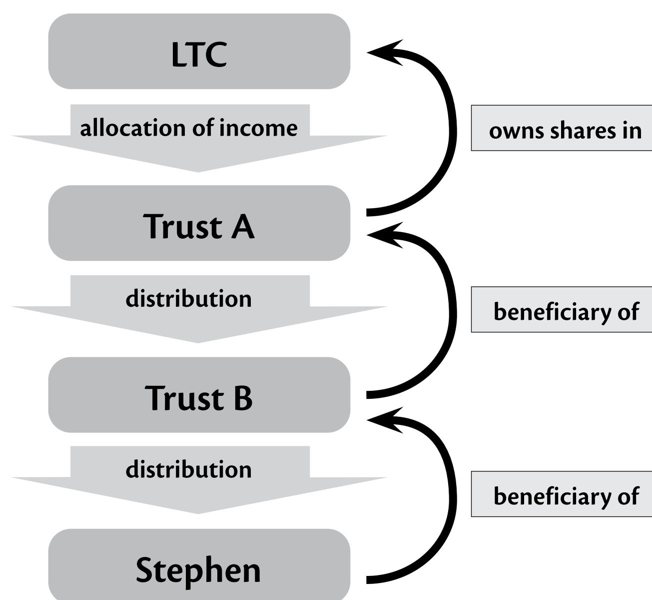
If shares in an LTC are owned by another LTC, the shareholding LTC is looked through to identify the ultimate look-through counted owners.

The look-through counted owners of the shareholding LTC are then established by the tests for individual and trustee shareholders described above.

For the 2017-18 and later income years where a trustee owner makes a distribution to a company the LTC no longer meets the eligibility criteria. This applies whether the company is directly or indirectly a beneficiary of a trustee owner.

Example 3: Indirect beneficial interest in a look-through company

A beneficiary has an indirect beneficial interest in an LTC in the following situation:



In this example Stephen has an indirect beneficial interest in a look-through interest in the LTC. This is because neither Stephen or Trust B hold shares directly in the LTC, but benefit from Trust A's shareholding.

For the 2016-17 and earlier income years, Stephen will be a look-through counted owner if the distribution made by Trust A to Trust B to him is of income sourced from the LTC.

For the 2017-18 and later income years, Stephen will be a look-through counted owner if Trust B receives a distribution from Trust A and Trust B makes a distribution to him. The distribution does not have to be of income sourced from the LTC, but does have to be sourced from income derived by the trust in the 2017-18 income year or later.

Look-through interests

A look-through company must have five or fewer look-through counted owners, being persons that have only "look-through interests" in the LTC.

Look-through interest means a person's shares in an LTC. There are different requirements for look-through interests depending on the income year the company is an LTC.

For the 2016-17 and earlier income years, an LTC could only have one class of shares with the same rights, proportionally, to vote or participate in any decision-making concerning the LTC's:

- distributions
- constitution
- capital variations
- appointment or election of directors

Each look-through owner must have the same rights, proportionally, to distributions of the LTC, or the LTC's profits or assets if the LTC acquired, redeemed or cancelled its shares, or reduced or returned its share capital (whether in liquidation or not).

For the 2017-18 and later income years, an LTC can have shares with different voting rights. However, each look-through owner must have the same rights, proportionally, to distributions of the LTC.

Part 3 - Electing to become an LTC

A company can only use the LTC rules for an income year if it meets all the requirements to be eligible (see Part 2) and has filed a valid election with us by the due date.

LTC election

You elect for your company to become an LTC by completing a **Look-through company election - IR862** form.

All owners of a look-through interest in the LTC at the date of the election must sign the LTC election for a company to become an LTC. Otherwise, it will not be valid. A guardian or legal representative must sign for owners under 18 years of age, or for any owner who cannot legally sign the election.

A company director, or an agent authorised by the director, completes the director's election on the IR862 and confirms that all shareholders of the company have signed the election, and that the company meets the eligibility criteria to be an LTC.

The company director or authorised agent must nominate a year for the election to apply. If they do not enter a year the election will be invalid and will not be accepted.

If a company ceases to be an LTC because it no longer meets the eligibility requirements, or because an owner revoked the LTC election, it cannot re-elect to become an LTC for the income year it ceased to be an LTC or for any of the two following income years.

Example

Wayne's Way Limited was an LTC with a standard 31 March balance date. An owner revoked its LTC status from 1 April 2023 (the 2024 tax year). Wayne's Way Limited cannot become an LTC again until 1 April 2026 (2027 tax year).

When elections are due

New companies

A company can become an LTC from the start of its first income year, if it elects to do this on or before the due date for its first income tax return.

If a company is linked to a registered tax agent, we may extend the deadline for filing the company's income tax return and LTC election to 31 March of the following year. Your agent can tell you if we have approved an extension of time.

The election form can be received after the return is filed.

Shelf companies

Some companies may incorporate but not start trading in their first income year. They advise us that the company is non-active by filing a **Non-active company declaration - IR433**. Non-active companies are commonly known as "shelf companies".

A shelf company can become an LTC from the beginning of its first active income year, if it elects to do this on or before the due date for its first required income tax return (including any approved extension of time).

A **Non-active company reactivation - IR434** form must also be completed.

Existing companies

For companies that have previously traded, an LTC election will apply from the start of the income year following the date we receive the election.

For example, a company with a standard balance date needs to make its election by 31 March 2023 to become an LTC for the 2023-24 income year.

Note

When an existing company first becomes an LTC, each owner is considered to have an amount of income on the first day of the income year the company becomes an LTC. See Part 6 for more information.

Non-standard balance dates

Elections relate to the income year of the company electing to be an LTC. The due date for an election for an existing company, or when the first tax return of a new or shelf company is due, depends on its balance date. For example, an existing company with a 30 June balance date wanting to become an LTC for the 2023-24 income year will need to make its election on or before 30 June 2023.

When a company first applies for an IRD number we'll give them a standard balance date of **31 March**. You'll need to write to us if you want to use a different balance date.

You cannot use a different balance date until we send you written approval.

What if my election is filed late?

An election received after the start of the year it was intended to relate to (or after the due date for the company's first income tax return) is invalid. You'll get a letter from us telling you we have not accepted the election.

Any election not signed by all the shareholders, or not signed by the director or authorised agent under instruction from the director will be invalid. You'll get a letter from us telling you that the election has not been accepted.

When we may accept late or invalid elections

We may still accept a late or invalid election if there are exceptional circumstances. These could be events outside the control of an owner, director or an agent that they could not have reasonably anticipated.

You'll need to write to us with the details of your exceptional circumstances, and an election must have been signed by all relevant persons within the income year you wish to elect for.

Company losses

Any loss balance from an income year when a company was not an LTC is extinguished when the company becomes an LTC, so is not deductible in the company's first income tax return as an LTC.

Also, any loss balance of a company that is not an LTC is extinguished when that company amalgamates with an LTC.

Note

If an LTC transitioned from a qualifying company/loss attributing qualifying company (QC/LAQC) in either of the first two income years starting on or after 1 April 2011, the owners may be able to claim a deduction for the extinguished losses in their own returns when the LTC makes a profit.

Confirmation of LTC status

After we've processed your LTC election we'll send a letter to the company confirming that it has become an LTC, and the effective date.

Note

Tax agents can also use our online services to check whether their clients are registered as an LTC and the effective election date.

Maintaining LTC status

A company remains an LTC until it either:

- does not meet the eligibility criteria, or
- the LTC election is revoked.

New elections do not need to be made to maintain the LTC status if the ownership of the company changes.

Part 4 - How LTC status ceases

Ceasing to be an LTC

A company can cease to be an LTC by:

- an owner's revocation or
- no longer meeting the eligibility criteria.

When a company stops using the LTC rules the owner(s) of the LTC are considered to have disposed of the underlying property of the company. The disposal is considered to be at market value at the date of exit and the owners will bear any tax consequences of this disposal. See Part 8 for more information.

Owner's revocation

Any owner of a look-through interest in an LTC can revoke the LTC election at any time. It does not matter if they were one of the owners who signed the original election to become an LTC.

The revocation is made using the **Revocation of look-through company election - IR896** form, and takes effect from the start of the income year after we receive it. A revocation notice can also be made by sending us a secure mail via myIR or a letter, by a current owner. The notice must be clear and include the following details: owners IRD number, LTC IRD number, date of the revocation, and include any relevant documentation, records, or information supporting the request. When we receive a revocation we'll advise the LTC in writing this has happened, and the income year the revocation comes into effect.

We'll only accept a late revocation under exceptional circumstances.

When an owner revokes the LTC election the company then becomes an ordinary company from the start of the next income year. The company will not be able to become an LTC in either the year the revocation takes effect, or in any of the following two income years.

Reversing the revocation

We can only reverse the revocation if the revoking owner:

- requests us to ignore it, or
- sells or otherwise disposes of all their interests in the LTC and the new owner(s) advise us to ignore the revocation.

A request to ignore the revocation must be made in writing to Inland Revenue. We must receive the request before the start of the income year the revocation was due to take effect.

Example

Takahe Co has a 31 March balance date and was incorporated on 30 June 2013. Rimu and Caleb each own 40% of the shares in the company and Margaret owns the remaining 20%. All three shareholders elected for the company to become an LTC form the date of incorporation and submitted the election to Inland Revenue in time for this to take effect.

In August 2014 Margaret decides to revoke the election to become an LTC and gives Inland Revenue notice. The revocation will take effect from 1 April 2015, for the 2015-16 income year. All the shareholders in the company will be treated as disposing of their interest in Takahe Co at market value as of 1 April 2015 and will be required to declare any resulting income in their income tax return that covers that date.

Rimu and Caleb want Takahe Co to remain an LTC and arrange to buy Margaret's shares. This may result in a tax obligation to Margaret (see Part 8). In September 2014 Margaret's shares are sold equally to Rimu and Caleb so they each own 50% of the company.

Rimu and Caleb advise Inland Revenue on 28 September 2014 that they've acquired Margaret's interest in the LTC and they want the revocation reversed. Takahe Co will continue to be an LTC for the 2015-16 income year and Margaret's revocation will be ignored.

Ceasing to be eligible as an LTC

If, at any stage, an LTC does not meet the requirements to be an LTC (see Part 2) it will automatically lose its LTC status, from the first day of the income year in which it stopped meeting its the requirements.

The LTC cannot have more than five look-through counted owners, so it's important to carefully monitor any changes in the look-through counted owner test if there are changes in the LTC shareholding.

Distributions made to beneficiaries of shareholding trusts must also be monitored carefully because beneficiaries can be included in the look-through counted owners test.

LTC status revoked automatically

An automatic revocation of LTC status cannot be reversed and the company's shareholders cannot re-elect to use the LTC rules for either the income year of revocation or the two following income years.

The company is treated as being an ordinary company for income tax purposes, from the first day of the income year when the automatic revocation occurred.

Generally, all of the LTC's shareholders are considered to have disposed of the LTC's underlying property at market value from the first day of the income year the revocation occurred in. See Part 8 for more information.

When an automatic revocation takes place the company or its tax agent should write to us stating what caused the revocation and when it happened.

Dividends after ceasing to be an LTC

Once a company's LTC status has been revoked the company will be taxed as an ordinary company and the normal tax rules on dividends will apply.

Any retained revenue profits held by the company would have previously been allocated to owners and subject to tax in the year the income was derived. Dividends that are later paid from these profits after the company ceases to be an LTC will be treated as excluded income in the hands of the recipient shareholder, so the shareholder will not have to pay tax twice on the same amount.

This applies whether the dividends are paid to the same shareholders who held shares while the company was an LTC or to new shareholders.

Dividends paid after the company ceases to be an LTC will be treated as first coming from any retained revenue profits. Once those profits are used up dividends will no longer be excluded income.

Use this formula to work out if an amount of dividend paid by a former LTC can be treated as excluded income:

Exit dividends – dividends after look-through

The terms in this formula have these meanings:

Exit dividends: The amount that would be taxable dividends of the company on distribution following a winding up immediately after the company ceased to be an LTC.

Dividends after look through: The total dividends paid by the company after it ceased to be a look-through company.

Any amount of dividend issued by a former LTC that is equal to or less than the result of this formula will be excluded income.

Example

Oleson Co was incorporated on 1 July 2016, making an election to be an LTC for its first income year. The company has a standard balance date. In February 2017 an owner revokes the LTC election, and Oleson Co becomes an ordinary company from the start of the 2017-18 income year.

Oleson Co calculates the amount of exit dividends on 1 April 2017 (the day after it ceased to be an LTC) is $10,000. This is the retained revenue profit of its business activity from the two previous income years. Because it was an LTC during that year any income and losses during those years will be allocated to its owners to be assessed in their own tax returns.

On 30 June 2017 Oleson Co issues a $7,000 dividend to its shareholders.

	Exit dividend:	
–	Dividends after look-through:	$ 0
=	Possible excluded dividend:	$10,000

Because the $7,000 dividend is less than $10,000 the amount will be an excluded dividend.

On 30 September 2017, Oleson Co issues another dividend, this time of $5,000. The earlier $7,000 dividend now needs to be taken into account when calculating the amount of excluded dividend.

	Exit dividend:	$10,000
–	Dividends after look-through:	$ 7,000
=	Possible excluded dividend:	$ 3,000

Only $3,000 of the dividend paid on 30 September 2017 will be an excluded dividend. The remaining $2,000 (5,000 - 3,000) is taxable income and normal RWT and imputation rules will apply.

Part 5 - Taxing an LTC's income

LTCs are transparent

Generally, for income tax purposes, an LTC is transparent in a similar way to partnerships. So, an owner with an effective look-though interest in the LTC is treated as:

- carrying on the activities and having the status, intentions and purposes of the LTC, and the LTC is treated as not carrying on the activities or having the intention or purpose
- holding the property of the LTC in proportion to their effective look-through interest in the LTC, while the LTC is treated as not holding that property
- being a party to an arrangement to which the LTC is a party to, in proportion to their effective look-through interest, while the LTC is treated as not being a party to the arrangement
- doing an activity or having an entitlement to anything the LTC does or has entitlement to, while the LTC is treated as not doing that activity or having such an entitlement.

Exceptions to "look through" mean the LTC itself will continue to be responsible as a company for its tax obligations under the:

- PAYE rules
- FBT rules
- RWT and NRWT rules
- RSCT and ESCT rules
- company amalgamation rules, or
- other tax Acts, eg, GST.

LTC income tax return

The LTC must complete a **Partnerships and look-through companies (LTCs) income tax return - IR7** that includes the total amount of income or deductions for the company for the income year, the amount of income for each owner, and a summary of the deductions for each owner.

The company itself is not liable for income tax, but each owner must include their share of the LTC's income and deductions in their own income tax returns, taking into account the amounts shown on the company's income tax return.

Working owners

An owner can be a working owner of an LTC if:

- they are employed under an employment contract
- they carry out their employment duties under that employment contract, and
- the LTC's main activity is not investing money, or holding and dealing in shares, securities, investments, estates or interests in land.

Payments to a working owner under the terms of the employment contract are included in their salary or wages. The LTC has to deduct PAYE and meet their employer obligations for that working owner the same as for an ordinary employee.

All owners of an LTC are allowed a deduction for their share of salary or wage payments made to working owners.

Owner's tax responsibilities

Because all the LTC's income, expenses, tax credits, gains and losses are passed through to the owners, each owner is responsible for declaring the income in their own income tax return.

The owner will be liable for any tax payable on their net LTC income at their applicable tax rate. They'll also be allowed a deduction for any loss incurred by the LTC against any other income sources they may have. This may be subject to a loss limitation rule - see Part 7.

Income from an LTC may also cause the owner to be liable for provisional tax. Go to **ird.govt.nz/provisional-tax** for more information.

Income or deductions from the business activity of an LTC will be treated as if it were self-employed business income or deductions of the owner.

Income or deductions from other sources, such as residential rental property or interest from investments, are also treated as if they were earned directly by the owner, and will be recorded this way in the owner's income tax return.

Example 1

Chestnut Co is an LTC with a standard balance date. It earns business income from a store selling nuts, some term investments and a residential rental property.

Charles holds 60% of the shares in Chestnut Co and his wife Caroline holds 40% of the shares.

Chestnut Co's income statement for the 31 March 2014 year shows:

	$
Business income	400,000
Allowable business expenses	(350,000)
Gross interest	12,000
Resident withholding tax (RWT) 28%	(3,360)
Rental income	13,500
Allowable rental expenses	(15,000)

Charles' allocation for the 31 March 2014 year will be:

		$
Business income	400,000 × 60% =	240,000
Allowable business expenses	350,000 × 60% =	(210,000)
Gross interest	12,000 × 60% =	7,200
RWT	3,360 × 60% =	(2,016)
Rental income	13,500 × 60% =	8,100
Allowable rental expenses	15,000 × 60% =	(9,000)

In their individual tax returns for the year ending 31 March 2014 Charles and Caroline will declare the following amounts of income or loss from Chestnut Co:

Charles: Business income from an LTC of $30,000 (240,000 – 210,000)
Gross interest of $7,200 with RWT credit of $2,016
Rental loss of $900 (8,100 – 9,000)

Caroline: Business income from an LTC of $20,000 (160,000 – 140,000)
Gross interest of $3,360 with RWT credit of $1,344
Rental loss of $600 (5,400 – 6,000)

ACC levies

A natural person owner who plays an active part in generating the LTC's income is self-employed for ACC purposes. They'll pay the ACC levies as a self-employed person, invoiced directly by ACC.

An owner who does not play an active part in the LTC's business is a passive investor and shareholder. They do not pay ACC levies on income attributed to them from the LTC. This includes any LTC income attributed to a natural person as beneficiary income through a trustee owner.

Salary or wages paid to a working owner are also liable for ACC levies. The ACC earners's premium will be deducted as part of the PAYE deducted from the working owner's salary or wages. The LTC will also be invoiced directly by ACC for any levies on salary or wages paid to employees, including the working owner.

Allocation of income and deductions

Income, expenses, tax credits, gains and losses are generally allocated to owners in proportion to each owner's effective look-through interest in the LTC. The allocation is usually according to each owner's average yearly interests, as if each item of income or deduction occurred uniformly throughout the income year.

Average interest method

If the shareholding of the LTC varies during the year owners may use an average interest method to determine their allocation of income and losses - see Example 2.

Example 2: Average interest method income and loss allocation

In the 2014-15 income year the shareholding in Chestnut Co (see Example 1) changes when Caroline sells her entire 40% shareholding to Laura, effective 31 December 2014.

Caroline held her 40% shareholding for nine months (275 days), while Laura held 40% of the shares for three months (90 days).

Chestnut Co's income statement for the 31 March 2015 year shows:

	$
Business income	500,000
Allowable business expenses	(300,000)
Gross interest	10,000
RWT (resident withholding tax) 28%	(2,800)
Rental income	13,000
Allowable rental expenses	(16,000)

Charles' allocation for the 31 March 2015 year will be:

		$
Business income	500,000 × 60% =	300,000
Allowable business expenses	300,000 × 60% =	(180,000)
Gross interest	10,000 × 60% =	6,000
RWT	2,800 × 60% =	(1,680)
Rental income	13,000 × 60% =	7,800
Allowable rental expenses	16,000 × 60% =	(9,600)

Caroline's allocation for the 31 March 2015 year will be:

		$
Business income	500,000 × 40% × (275/365) =	150,685
Allowable business expenses	300,000 × 40% × (275/365) =	(90,411)
Gross interest	10,000 × 40% × (275/365) =	3,014
RWT	2,800 × 40% × (275/365) =	(844)
Rental income	13,000 × 40% × (275/365) =	3,918
Allowable rental expenses	16,000 × 40% × (275/365) =	(4,822)

Laura's allocation for the 31 March 2015 year will be:

		$
Business income	500,000 × 40% × (90/365) =	49,315
Allowable business expenses	300,000 × 40% × (90/365) =	(29,589)
Gross interest	10,000 × 40% × (90/365) =	986
RWT	2,800 × 40% × (90/365) =	(276)
Rental income	13,000 × 40% × (90/365) =	1,282
Allowable rental expenses	16,000 × 40% × (90/365) =	(1,578)

In their individual tax returns for the year ending 31 March 2015 Charles, Caroline and Laura will declare the following amounts of income or loss from Chestnut Co:

Charles: Business income from an LTC of $120,000 (300,000 – 180,000)
Gross interest of $6,000 with RWT credit of $1,680
Rental loss of 1,800 (7,800 – 9,600)

Caroline: Business income from an LTC of $60,274 (150,685 – 90,411)
Gross interest of $3,014 with RWT credit of $844
Rental loss of $904 (3,918 – 4,822)

Laura: Business income from an LTC of $19,726 (49,315 – 29,589)
Gross interest of $986 with RWT credit of $276
Rental loss of $296 (1,282 – 1,578)

Accounts method

Instead of using the average interest method, owners can use their actual look-through interest in each period of the income year. This is applied to the income, expenses and other look-through items from each period and then added together. You need to prepare accurate accrual accounts for each ownership period during the year.

All owners must agree to use this accounts method for the income year. If all owners do not agree to use the method they must all use the average yearly interest method instead.

If the LTC's assessable income is $3 million or more during a 12-month period you may be required to use the accounts method if we decide it will provide the most accurate allocation of income and losses. We'll notify you if we decide the LTC must use this method.

Example 3: Accounts method income and loss allocation

If, in Example 2, Chestnut Co had drawn up full accounts and a profit and loss statement for the periods before and after Caroline sold her shares to Laura, it would show:

Income/expenses	1 Apr to 31 Dec	1 Jan to 31 Mar	Annual
	$	$	$
Trading income	100,000	400,000	500, 000
Allowable expenses	(100,000)	(200,000)	(300,000)
Gross interest	7,500	2,500	10,000
Rental income	10,000	3,000	13,000
Allowable rental expenses	8,000	8,000	16,000

Charles's allocation for the 2014-15 income year is the same as in Example 2, as his shareholding was unchanged throughout the year.

Caroline's allocation for the 1 April to 31 December period is determined as:

Trading income	100,000 × 40%	=	40,000
Allowable expenses	100,000 × 40%	=	(40,000)
Gross interest	7,500 × 40%	=	3,000
RWT (28%)		=	(840)
Rental income	10,000 × 40%	=	4,000
Allowable rental expenses	8,000 × 40%	=	(3,200)

Laura's allocation for the 1 January to 31 March period is determined as:

Trading income	400,000 × 40%	=	160,000
Allowable expenses	200,000 × 40%	=	(80,000)
Gross interest	2,500 × 40%	=	1,000
RWT (28%)		=	(280)
Rental income	3,000 × 40%	=	1,200
Allowable rental expenses	8,000 × 40%	=	(3,200)

In his individual tax return for the year ending 31 March 2015 Charles will declare the same income and losses as in Example 2. Caroline and Laura will declare the following amounts of income or loss from Chestnut Co in their 2015 tax returns, due to their changes in shareholding:

Caroline: Business income from an LTC of $0 (40,000 – 40,000)
Gross interest of $3,000 with RWT credit of $840
Rental income of $800 (4,000 – 3,200)

Laura: Business income from an LTC of $80,000 (160,000 – 80,000)
Gross interest of $1,000 with RWT credit of $280
Rental loss of $1,900 (1,300 – 3,200)

Anti-avoidance provisions

We can adjust the allocation of income or deductions from an LTC to its owners if we consider that it's excessive, to prevent income being diverted to an owner's relative.

We may take into account the nature and extent of the services given by an owner or relative, the value of an owner's contributions, and other relevant matters when deciding on any adjustment.

Excessive remuneration to relatives

We may adjust the allocation of income and deductions of an LTC to its owners if the LTC employs a relative of an owner, and we consider their remuneration to be excessive.

This provision does not apply if the relative is over 20 years of age at the date of entering into a written employment agreement with the LTC, providing they have control over the income paid to them under this agreement.

Excessive effective look-through interests

If we consider the current allocation provides excess income to an owner under 20, we may adjust the effective look-through interests of owners, and the resulting income and losses allocated to each owner.

This provision applies when two or more owners of an effective look-through interest in an LTC are relatives, and one is under 20.

Attribution of personal services income

When applying the attribution rules for income from personal services, LTCs are treated as associated entities, and not as being transparent.

Transactions considered to be different from their market value between owners and their LTCs

If an owner enters into a transaction with their LTC for an amount that differs from its market value and the transaction has the purpose or effect of defeating the application or intent of the LTC rules, we can treat the transaction as having taken place at its market value. This applies from 1 April 2017.

Part 6 - Income for first year of an LTC

When an existing company becomes an LTC, each owner is considered to receive an amount of income for the first year the company is an LTC. Under the LTC rules the company's reserves may be distributed or drawn down without the owners being subject to tax on distribution. This treatment is not intended to apply to previously accumulated company reserves.

Owners of newly incorporated and shelf companies which enter the LTC rules from their first year of trading will not have any income under these rules. Owners of companies that begin to use the LTC rules after their first year of trading, or re-elect to use the LTC rules after having previously stopped using them, may have income under these rules.

The LTC owners must declare the income in their own income tax returns in proportion to their effective look-through interest in the LTC.

These rules also apply when a non-LTC company amalgamates with an LTC.

Note

These rules do not apply to a QC or LAQC that transitioned into the LTC rules in one of the first two income years starting on or after 1 April 2011.

Calculating owner's income for the LTC's first year

Each owner's income for the first year a company is an LTC is equal to their proportion (based on their effective look-through interest) of the company's reserves that would be taxable if the company was liquidated and all assets distributed to the company's shareholders.

There's a different calculation depending on which year is the LTC's first income year.

For the 2016-17 and earlier income years

Use this formula to determine the amount of the company's untaxed reserves for an LTC's first year:

$$\text{Dividends} + \text{balances} - \text{assessable income} - \frac{\text{balances}}{\text{tax rate}} - \text{exit exemption}$$

The terms in this formula have these meanings:

Dividends: The amount that would be taxable dividends of the company on distribution if the company were wound up immediately before the company became an LTC.

Balances: The sum of the balances in the company's imputation credit account immediately prior to becoming an LTC, plus any unpaid income tax less any refunds due for income tax years prior to becoming an LTC.

Assessable income: The assessable income that would be derived by the company if it were wound up, less any allowable deductions for winding up. This includes depreciation recovered, bad debts and losses on the sale of assets.

Tax rate: The company tax rate for the income year before the income year when the company becomes an LTC, shown as a decimal (ie 0.28).

Exit exemption: The exit dividends that, if the company had been an LTC and is now becoming one again, would be attributed to any retained reserves from the previous LTC period that haven't since been distributed.

Example

A Co is an ordinary company with three individual shareholders. Jane and Scott each have a shareholding of 30% and Alan has a shareholding of 40%.

A Co converts to an LTC for the 2017 income year and must perform a calculation to determine the amount of the company's untaxed reserves which its owners will need to include in their income tax returns.

It calculates its dividends as $230,000. The balance in A Co's imputation credit account is $85,000. A Co has never been an LTC before.

$$230{,}000 + 85{,}000 - 0 - \frac{85{,}000}{0.28} - 0 = \$11{,}428.57$$

Jane and Scott would each declare $3,428.57 ($11,428.57 × 30%) in their own income tax returns in the year A Co became an LTC.

Alan would declare $4,571.43 ($11,428.57 × 40%) in his income tax return in the year that A Co became an LTC.

For the 2017-18 and later income years

Use this formula to determine the amount of the dividend and imputation credits for an LTC's first year:

untaxed reserves + reserves imputation credit

The terms in this formula have the following meanings:

Reserves imputation credit: The total amount of credits in the company's imputation credit account, up to the maximum permitted ratio for the untaxed reserves (ie 28:72).

This also includes an amount of income tax payable in relation to a pervious year which has not been paid, and is reduced by the amount of income tax refundable from an earlier income year which has not yet been refunded.

Untaxed reserves: The amount calculated using the following formula:

dividends – assessable income – exit exemption

The items in this formula have the same meanings as in the formula that applies for calculations for the 2016-17 and earlier income years.

Example

B Co is an ordinary company with two individual shareholders. Tara has a shareholding of 25% and Marley has a shareholding of 75%.

B Co converts to an LTC for the 2018 income year and must perform a calculation to determine the amount of the dividend income and imputation credits for its owners.

It calculates the untaxed reserves as $280,000 using the formula above. The balance in B Co's imputation credit account is $71,000 and it has income tax to pay for the previous income year of $10,000. B Co does not have any income tax refunds due.

280,000 + 81,000 (71,000 + 10,000) = $361,000

Tara would declare a dividend of $90,250 ($361,000 x 25%) with imputation credits of $20,250 (81,000 x 25%) attached in her own income tax return in the year B Co became an LTC.

Marley would declare a dividend of $270,750 ($361,000 x 75%) with imputation credits of $60,750 ($81,000 x 75%) attached in his own income tax return in the year B Co became an LTC.

A separate formula exists for a Qualifying Company (QC) which becomes an LTC that would have insufficient imputation credits to fully impute the dividend calculated using this formula.

The formula for these QCs is:

$$\left(\frac{\text{balances}}{\text{tax rate} - \text{balances}}\right) + \text{balances imputation credit}$$

The terms in this formula have the following meanings:

Balances: The sum of the company's imputation credit account and amount of income tax payable for an earlier income year but not paid before the relevant date, less refunds due for the earlier income year but paid after the relevant date.

Tax rate: The company tax rate in the income year immediately before the company became an LTC.

Balances imputation credit: The same as the amount of the item "balances" and is treated as an attached imputation credit included in the dividend calculated.

Part 7 - Losses and loss limitation

The LTC's deductions and losses are generally allocated to the LTC's owners in the same way as the LTC's income, using the allocation methods set out in Part 5.

Before the 2017-18 income year, the amount of deductions an owner can use was limited to their "owner's basis" which is the adjusted tax value of their investment in the LTC.

Generally, the loss limitation only applied if a company's tax losses weren't matched by the owner's contributions. The loss limitation rule ensured owners could only offset tax losses up to the amount of their actual economic losses.

The loss limitation rule was removed for most LTCs for the 2017-18 and later income years. Losses previously restricted under the rule are available for use against income in the 2017-18 income tax returns.

The loss limitation rule still applies for LTCs that are in a joint venture or partnership which includes another LTC. These LTCs will need to continue to determine the "owner's basis" to see if the amount of losses available for use is limited.

Note

The loss limitation rule does not apply to an LTC that is in a joint venture or partnership that has no other LTC.

Calculating the owner's basis

Note

You only need to calculate your "owner's basis" if the loss limitation rule could apply to limit the amount of losses you're able to claim. See above for more information on when the loss limitation rule could apply.

Use the following formula to calculate each look-through counted owner's "owner's basis".

Investments – distributions + income – deductions – disallowed amounts

The terms in the formula have these meanings:

Investments: The sum of the equity, goods or assets introduced or services provided to the LTC, or amounts paid by the owner on behalf of the LTC. It includes any loans, including shareholder current account credit balances, made by the owner to the LTC and their share of any LTC debt which they, or their associate, have guaranteed or provided indemnities for.

Distributions: This is anything paid out to the owner by the LTC, including dividends, loans and shareholder current account balances. It does not include any salary or wages received by a working owner.

Income: The owner's share of income, including exempt or excluded income, and any capital gains from the current and prior tax years that the company was an LTC.

Deductions: The owner's share of deductions and capital losses in prior tax years that the company was an LTC.

Disallowed amount: The amount of investments (see above) made by an owner within 60 days of the last day of the LTC's income year if these investments are or will be distributed or reduced within 60 days after the last day of the income year. This will prevent the creation of an artificially high owner's basis around the end of the income year to allow for normal operational cash-flow. This amount can be ignored if it's less than $10,000.

Each owner's basis will need to be checked before any deductions or losses from an LTC are used in the owner's individual income tax return. We recommend each owner's basis is established when a company becomes an LTC, or when an owner buys shares in an LTC. The owner's basis can then be adjusted for any of the above situations.

Excess deductions or losses

Any amount of loss or deduction for an owner that exceeds the owner's basis cannot be claimed in that income year.

The excess deductions may be carried forward, to be deducted from any income or loss from the LTC in future years, subject to the loss limitation rule in those years.

Example

In the 2015-16 income year Trent is allocated a rental loss of $10,000 from an LTC, but the loss limitation rule limits the amount he can claim for that year to $9,000.

The excess $1,000 is carried forward and added to any deductions allocated to Trent but the LTC for the 2016-17 year. If the rental loss from the LTC for the 2016-17 income year is $12,000, the amount of loss that will need to be checked against Trent's owner's basis will be $13,000.

If the amount is still limited for the 2016-17 income year, Trent will be able to use the excess (ie non-allowable amount) against income in his 2017-18 income tax return.

If the amount is still limited for the 2016-17 income year, Trent will be able to use the excess (ie non-allowable amount) against income in his 2017-18 income tax return.

If the company ceases to be an LTC but continues in business as an ordinary company, any losses carried forward by an owner due to the loss limitation rule may continue to be used, but only against any future dividends they receive from the company.

An owner who ceases to hold shares in the LTC, and no longer has an effective look-through interest, cannot use excess deductions carried forward. The owner may be able to use them later if they acquire shares in the company again.

Part 8 - Disposing of look-through interests

An owner of an LTC is treated as holding the LTC's property and assets directly in proportion to their effective look-through interest. There will be tax implications due to disposal of the underlying LTC property if the company is liquidated or ceases to use the LTC rules (whether because they fail to meet the eligibility criteria or otherwise), or when an owner sells their shares.

Disposal of underlying LTC property

An owner is considered to have disposed of the underlying property of the LTC at market value and has to account for any tax obligations if:

- the company ceases to use the LTC rules, but otherwise continues to exist as an ordinary company. The company is considered to immediately acquire the property again at the same market value
- the LTC permanently ceases to be a company (eg, through liquidation or court order)
- an owner's shares are cancelled or repurchased by the LTC, unless it's part of a pro-rata cancellation applied to all owners which does not actually alter each owner's effective look-through interest.

In the case of permanent cessation, share repurchase or cancellation, any actual consideration the owner receives is ignored and the disposal is considered to take place at market value.

Note

These rules do not apply to an LTC that loses LTC status at the end of the 2016-17 income year because of a change contained in the Taxation (Annual Rates for 2016-17, Closely Held Companies, and Remedial Matters) Act 2017. These changes are summarised on page 4. For these LTCs, the company that supersedes the LTC is treated as having the same tax position it had as the LTC, meaning that any assets of the LTC are transferred at book value and the company is treated as having acquired them on the same date as the LTC and with the same intention.

Disposing of shares in an LTC

When an owner sells their shares in the LTC they're treated as disposing of their share of the underlying LTC property. They will have to pay any tax associated with the disposal.

Disposal thresholds

The owner selling the shares, "the exiting owner", only needs to account for income tax on the disposal of their shares if certain thresholds are exceeded. If these thresholds are not exceeded the new owner, "the entering owner", is treated as acquiring their interests in the LTC's underlying property for the same cost the exiting owner acquired them at.

If these thresholds are exceeded the entering owner is treated as acquiring their interests in the LTC's underlying property for the amount paid for the shares.

These thresholds do not apply to revocation of LTC status or liquidation of the company.

$50,000 threshold

Exiting owners must account for tax on the sale of shares if the amount paid or payable for those shares exceeds the total net book value of the owner's share of the LTC's property by more than $50,000. This is less any liabilities under accepted accounting practices.

Any LTC shares the owner has sold within the preceding 12 months are also taken into account for this threshold.

If the $50,000 threshold is exceeded, the entire amount is treated as the exiting owner's taxable income.

Trading stock threshold

Exiting owners do not have to make a revenue accounting adjustment for trading stock if the LTC's total annual turnover is $3 million dollars or less for the year of disposal.

Depreciable tangible property

Exiting owners do not have to account for depreciation recovery or loss on their share of any depreciable tangible asset if the total cost of the asset when the LTC first acquired it was $200,000 or less.

Financial arrangements

An exiting owner is not required to perform a base price adjustment for any interest held by the LTC in a financial arrangement if:

- it was necessary for the LTC to enter into the financial arrangement as part of its business, but the financial arrangement is only incidental to the LTC's business, and
- the owner is not in the business of holding financial arrangements.

Short-term sale and purchase agreements

Disposal of look-through interests that included a short-term agreement for sale and purchase is excluded income for the exiting owner.

Livestock

If the LTC property includes female breeding livestock valued using the national standard cost scheme or cost price method the entering owner may be treated as if they had originally purchased and held the livestock.

Relationship property settlements

A transfer of shares in an LTC as part of a settlement of relationship property is not treated as a disposal of shares.

Instead, the person receiving the shares is treated as having acquired the look-through interests on the date they were originally acquired by the transferor, and will take on the transferor's owner's basis - see Part 7.

Terms we use

Close company

A company in which five or fewer natural persons hold more than either 50% of the total voting interests, or more than 50% of the total market value interests if a market value circumstances exists.

Controlled foreign company (CFC)

A foreign company controlled by five or fewer New Zealand resident shareholders.

Effective look-through interest

Effective look-through interest determines each owner's allocation of income or losses from the LTC.

Before the 2017-18 income year, each owner's effective look-through interest was measured by the percentage of decision-making rights carried by their shares in the company in relation to dividends or other distributions, the company's constitution, variation of the company's capital and directors' appointments or elections.

For the 2017-18 and later income years it is no longer necessary to measure the percentage of decision-making rights referred to above in determining a person's effective look-through interest. Instead, a person's effective look-through interest is determined solely based on the number of shares the person holds in the company.

If the shareholding of the LTC varies during the year, either the average interest method or the accounts method will be used to establish each owner's effective look-through interest for the year. See pages 15-16 for more information.

Flat-owning company

Flat-owning companies are companies set up to own residential property. They're not typical business companies. Shareholders in flat-owning companies are entitled to use or occupy the property.

A flat-owning company is a company whose:

- constitution provides that every registered shareholder is entitled to the use of a specific residential property in New Zealand owned by the company, and
- only significant assets are residential properties available for the use by specific shareholders and funds reserved for meeting the company's costs.

Foreign company

A company that:

- is not resident in New Zealand, or
- is resident in New Zealand but, under a double tax agreement, is treated as not being a resident for tax purposes.

Foreign investment fund (FIF)

A foreign entity (eg, offshore unit trust or superannuation fund) a New Zealand resident has an interest in and is a source of income. For more information read **A guide to foreign investment funds and the fair dividend rate - IR461**.

Grandparented Māori authority

A grandparented Māori authority is a Māori authority that before 3 May:

- was an owner of the LTC
- had entered into an arrangement to become an owner of the LTC
- was a beneficiary of a trust that is an owner of the LTC.

Grandparented tax charity

A grandparented tax charity is a tax charity that before 3 May 2016:

- was an owner of the LTC
- had entered into an arrangement to become an owner of the LTC.

Look-through interest

Look-through interest means a person's shares in a look-through company. See page 9 for more information.

Māori authority

A Māori authority means an entity which has been granted Māori authority status.

Tax charity

A tax charity is generally a charity that is exempt from income tax under the Charities Act 2005 or the Income Tax Act 2007.

Part 9 - Services you may need

0800 self-service

Our 0800 self-service number, 0800 257 777, is open 7 days a week. Make sure you have your IRD number ready when you call.

For access to your account-specific information, you'll need to be enrolled with voice ID or have a PIN.

When you call, confirm what you want from the options given. If you need to talk with us, we'll re-direct your call to someone who can help you.

Need to speak with us?

Have your IRD number ready and call us on one of these numbers.

General tax, tax credits and refunds	0800 775 247
Employer enquiries	0800 377 772
General business tax	0800 377 774
Overdue returns and payments	0800 227 771

Find out more at **ird.govt.nz/contact-us**

Privacy

Meeting your tax obligations means giving us accurate information so we can assess your tax and entitlements under the Acts we administer. We may charge penalties if you do not.

We may also exchange information about you with:

- some government agencies
- another country, if we have an information supply agreement with them, and
- Statistics New Zealand (for statistical purposes only).

You can ask for the personal information we hold about you. We'll give the information to you and correct any errors,

unless we have a lawful reason not to. Find our full privacy policy at **ird.govt.nz/privacy**

If you have a complaint about our service

We're committed to providing you with a quality service. If there's a problem, we'd like to know about it and have the chance to fix it.

If you disagree with how we've assessed your tax, you may need to follow a formal disputes process.

Find out more about making a complaint, and the disputes process, at **ird.govt.nz/disputes**

Te Kāwanatanga o Aotearoa
New Zealand Government