

Thin capitalisation: spreading yourself too thin?

What effect will the new thin capitalisation rules have on foreign investment in New Zealand?

What is thin capitalisation?

Thin capitalisation refers to the concept of what the Government considers to be excessive debt funding of an investment in New Zealand. It is regarded as excessive because it removes profit from New Zealand at a lower tax rate.

The thin capitalisation rules deny interest deductions to the extent that the debt percentage of an investment's New Zealand group exceeds the higher of the "safe harbour threshold" and 110% of the debt percentage of the business's worldwide group.

What's changed?

From 2011/12 (1 April 2011 for standard balance date taxpayers) the safe harbour threshold will reduce from 75% to 60%.

The 110% threshold will remain unchanged.

The outbound thin capitalisation rules (for New Zealand businesses investing outside of New Zealand) remain unchanged.

These changes also need to be considered in the context of recent changes to many of our Double Tax Agreements with our major trading partners.

How does this affect me?

The changes mean that foreign investors will need to consider the structuring and cost effectiveness of your current investment in New Zealand.

What can Grant Thornton do to ensure I don't pay more tax than I need to?

Our tax specialists have the expertise and resources to review your current structure and repatriation strategies. Working with you and our Grant Thornton International network, we will:

- Consider the thin capitalisation opportunities to maximise interest deductions
- Consider your international financing structures to manage risk exposure and debt levels
- Advise those taxpayers currently at the present thin capitalisation threshold and who will therefore face interest deduction issues
- Carry out a wider profit repatriation review including transfer pricing, profit allocations and international structure reviews
- Review new international tax agreements for the tax benefits for inbound and outbound investors.

When do I need to act?

Contact us as soon as possible to discuss your options further and plan the way forward.

Contact

If you would like more information on any of the above please contact:

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