20 May 2010

Fact sheet – LAQC and QC changes

What is changing?

- Qualifying companies (QCs) and loss attributing qualifying companies (LAQCs) will become flow-through entities for tax purposes - similar to limited partnerships.

- Inland Revenue and Treasury are releasing an issues paper today on the implementation of the new rules.

- Changes will take effect from income years starting on or after 1 April 2011. Legislation implementing these changes will be enacted later this year.

Why?

- Under the current rules, people can choose to deduct losses at their marginal tax rate – as high as 38 per cent – but have their profits taxed at the lower company rate (currently 30 per cent).
- Changing the rules will improve the integrity and fairness of the tax system.

Key facts

- The changes will affect only shareholders of QCs and LAQCs.
- In recent years, LAQCs have become more popular and they are a common structure used by property investors. Between 2003 and 2007 - during the housing boom - the number of active LAQCs doubled and the average tax loss claimed by investors increased by almost 50 per cent.

- The changes are expected to generate additional revenue of $70 million in 2011/12, falling to $55 million a year by 2013/14.

More information

- *The issues paper on the implementation of the changes to the QC and LAQC rules will be available on Inland Revenue's Policy Advice Division website at www.taxpolicy.ird.govt.nz*