20 May 2010

Fact sheet – Thin capitalisation rules

What is changing?

- The safe harbour in the inbound thin capitalisation rules – or so-called "thin cap" - will be reduced from 75 per cent to 60 per cent. This means foreign-owned companies will be able to claim only tax deductions for interest payments on debt up to 60 per cent of their local asset value. The only exception is if the total multi-national group's debt ratio is higher than this.
- This change will take place from the 2011/12 income year – for many businesses this will be from 1 April 2011.

Why?

- Changing the thin cap rule limits the extent to which foreign multinationals can allocate debt to their New Zealand subsidiaries, claim tax deductions for the interest they pay on this debt, and therefore reduce the amount of tax they have to pay here.

Key facts

- Debt is commonly used as a tax planning tool by multinationals operating in more than one tax jurisdiction. Like many other developed countries, New Zealand has rules to limit the scope for excessive amounts of debt to be loaded against the domestic tax base.
- The United States also has a 60 per cent safe harbour in its interest allocation rules.
- This change will generate $200 million a year in additional revenue from the 2011/12 income year.

More information

- *A special report explaining the relevant amendments will be available on Inland Revenue's Policy Advice Division website at www.taxpolicy.ird.govt.nz after Budget day legislation is introduced.*