



Orthopaedic surgeons cut tax to the bone

The landmark Supreme Court decision in the "Penny and Hooper" company structure and trusts tax avoidance case came about after the respective tax payers dropped their income over one year from \$650,000.00 to \$120,000.00 in one case and from over \$300,000.00 to \$100,000.00 in the other.

The Court held that income derived from personal exertion should belong in its appropriate taxation band and should not be inappropriately diverted away. Since the judgment, the IRD has said it would closely examine situations in which arrangements had the effect of diverting large amounts of "personal exertion income".

The IRD has clarified it is likely to target arrangements where the total remuneration and profit distributions received by the individual service provider is less than 80% of the total distributions received by the controller, his/her family and associated entities.

Because New Zealand has various tax rates, many service providers have structured their businesses to their best tax advantage. It appears the IRD agrees the Penny and Hooper case is fact specific and the decision will not cause an examination of the tax effect of business structures across the board.

Ross Fanthorpe is experienced in the field of business set up and effective structures. Feel free to have a chat about the best way to structure your business.



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