Mr and Mrs Smith operate their family business, along with their sons, in a company structure. This company is in its first year of trading. Due to the recent downturn in their industry, the company has made a significant loss. However Mr and Mrs Smith also have a partnership that trades in a different industry that has made a large profit, and Mr Smith has salary income also.

The issue that the Smith's have is that they have a significant amount of tax to pay in relation to their partnership profit, but have a large loss made by the company.

With some careful tax planning, it's possible to structure the Smith's entities so that they can take advantage of the loss that the company has made.

What do we mean by this?

Currently the Smith's company is a "standard company". They can apply to Inland Revenue to elect to make the company a Look-Through-Company (LTC). This means that the company can allocate the profit or losses of the company to its shareholders.

So what will this mean for the Smith's? We have outlined their original tax position before and after the LTC election below.

ORIGINAL TAX POSITION PRE LTC ELECTION

	Mr Smith	Mrs Smith	Partnership
Income	114,420.00	44,000.00	150,000.00
Tax liability	30,520.00	6,720.00	22,330.00
Total Tax position before LTC election	**$59,570.00**		

TAX POSITION AFTER LTC ELECTION

	Mr Smith	Mrs Smith	Partnership
Income	394.94	0.00	0.00
Tax refund	(30,589.13)	(8,720.00)	0.00
Total Tax refund after LTC election	**($39,309.13)**		

As you can see, there is a cash difference between both options of $98,879.13. The LTC election will save Mr and Mrs Smith a lot of money!

There are some specific criteria in relation to LTC's. If you would like further information about this, or want to know what tax options are available to you, we'd be happy to discuss this with you. At CMK, we are committed to helping you plan, grow and develop your business. Please feel free to contact us on 06 765 6178, or email us at cmk@cmk.co.nz