

# Use of old GAAP in the CFC rules

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*An officials' issues paper*

August 2012

*Prepared by the Policy Advice Division of Inland Revenue*

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## **Use of “old GAAP” financial reporting standards in the controlled foreign company rules in the Income Tax Act 2007**

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1. To reduce compliance costs, taxpayers who have interests in controlled foreign companies (CFCs) can use general purpose financial statements to make some tax calculations.
2. At the moment, the general purpose financial statements must comply with International Financial Reporting Standards (IFRS) or with pre-IFRS standards approved by regulations made under the Financial Reporting Act (often called “old GAAP”).
3. Changes are being made to the financial reporting framework which will make the references to old GAAP in the CFC rules obsolete. (See [www.med.govt.nz](http://www.med.govt.nz) for further information).
4. When the CFC rules were reformed in 2009, it was made clear that taxpayers could use old GAAP only as an interim measure, until its future was clear.
5. Now that its future is clear, our initial inclination is to remove the option to use old GAAP from the CFC rules, following a transitional period.
6. This would mean that anybody using the old GAAP method in the CFC rules would need to switch to the IFRS method or use direct tax calculations instead.
7. In part, our view is based on an assumption that old GAAP is not being used by many taxpayers when applying the CFC rules. This is an assumption which we would like to check.
8. If you are a taxpayer who uses old GAAP when applying the CFC rules, we would like to hear from you so that we can establish the actual level of use of the option.
9. This consultation document concerns the use of old GAAP only in the CFC rules.

### **How to let us know about your use of old GAAP in the CFC rules**

10. Please send us a letter before 30 September 2012, addressed to:

Use of old GAAP in the CFC rules  
C/- Deputy Commissioner, Policy  
Policy Advice Division  
Inland Revenue Department  
P O Box 2198  
Wellington 6140

Or email: [policy.webmaster@ird.govt.nz](mailto:policy.webmaster@ird.govt.nz) with “Use of old GAAP in the CFC rules” in the subject line.

11. Your letter should indicate whether it would be acceptable for officials from Inland Revenue to contact you to discuss your use of old GAAP, if required.
12. Letters may be the subject of a request under the Official Information Act 1982, which may result in their publication. The withholding of letters on the grounds of privacy, or for any other reason, will be determined in accordance with that Act. If you consider that any part of your letter should properly be withheld under the Act please clearly indicate this.