

Budget 2010

20 May 2010

The Minister of Finance, Bill English, introduced his second budget in Parliament today.

Although measures were announced in the budget providing additional funding for Health, Education, R&D and Infrastructure, the focus on the budget and the measures announced are designed to improve GDP and improve the speed of the economic recovery.

The key focus of this budget is the change in the tax system which aims at "Tax Fairness" and attempts to rebalance the tax system for growth.

Following the recommendations of the Tax Working Group earlier in the year it was hoped the Government would follow their recommendations and overhaul the tax system. Rather than an overhaul, the Government has elected to give the tax machine a tune up.

The worst kept secret on what the likely tax cuts and GST rise would be were proved correct with the top personal tax rate coming down to 33% and the GST rate increasing to 15%. Surprisingly, the company tax rate has been reduced to 28% perhaps letting the Government steal a march on the Aussies.

The Government hopes that the reduction in tax rates will keep more skilled people working in New Zealand.

At all income levels, tax cuts exceed the GST rate increase.

Personal Tax Cuts Announced

The Government has kept the same income bands but cut tax rates from 1 October 2010. The year to 31 March 2011 will be a composite rate of the current and new tax rates.

Income	Current rates	New rates
\$0 - \$14,000	12.5%	10.5%
\$14,001 - \$48,000	21.0%	17.5%
\$48,001 - \$70,000	33.0%	30.0%
Over \$70,000	38.0%	33.0%

Although most commentators focus on the reduction in the top tax rate, the reduction in the bottom two rate bands is significant as two thirds of the tax cuts are paid to those earning annually up to \$48,000 of income.

Looking at the tax cuts and GST increase, the net weekly projected income levels is illustrated below.

Annual Income	Tax cut	Extra GST	Total Change
\$20,000	9.42	6.60	+2.82
\$40,000	22.88	12.94	+9.94
\$52,000	30.58	16.23	+14.34
\$70,000	40.96	20.92	+20.04
\$80,000	50.58	23.33	+27.25
\$100,000	69.81	28.14	+41.66
\$120,000	89.04	32.96	+56.08

A family with two children earning \$50,000 annually will pay no tax after taking Working for Family Tax Credits into account.

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Company Tax Rate drops to 28%

- The company tax rate will fall from 30% to 28% from the 2011/12 income year. For most companies, this will apply from 1 April 2011.
- Dividends arising from profits made by companies and taxed at the previous rate of 30% will be able to be paid out with Imputation Credits attached at 30% for a period of two years.
- All new dividends arising from profits taxed at 28% will have Imputation Credits attached at a maximum of 28%.
- Dividends Paid will still require Dividend Resident Withholding Tax deducted to make the effective tax rate 33%.
- PIE rates and bank interest RWT will also reduce to 28%.

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GST Rate Increase Announced

The GST rate is to increase from 12.5% to 15% from 1 October 2010. To compensate for the new GST rate and the offset of the tax cuts all benefits, National Superannuation and student allowances will increase by 2.02% from 1 October 2010.

Thin capitalisation rules for overseas owned companies will reduce the borrowing ratio from 75% to 60%.





The GST Tax Fraction

Oh, when things were easier.

I remember when the GST rate was 10%. The calculation to get the GST exclusive price was to merely divide by the GST inclusive price by 11. (or multiply by 0.909090).

When GST increased to 12.5% on 1 July 1989 the tax fraction became divide by 9 and times by 8. (or multiply by 0.88888).

The new calculation with GST at 15% is divide by 23 and times by 20 (or multiply by 0.8695652).

Depreciation on Rental Properties and Commercial Buildings canned

- Depreciation deductions will no longer be allowed for buildings with an estimated useful life of 50 years or more, such as rental properties, offices and commercial buildings.
- These rules will change for all such buildings from the 2011/12 income year. For most businesses these will be effective from 1 April 2011.
- Building owners will still be able to claim deductions for repairs and maintenance, to maintain the condition and value of their properties. They will also still be able to claim depreciation deductions for "fit outs" not considered part of the building.
- The Government intends to review the treatment of commercial "fit out" and, if necessary, amend the rules prior to 1 April 2011 to address any uncertainty in this area.
- Building owners will be able to apply to Inland Revenue for a provisional depreciation rate if they consider a class of buildings, has an estimated useful life of less than 50 years.

20% Depreciation loading removed from today

Businesses will no longer be able to claim 20 per cent accelerated depreciation on new plant and equipment.

This change will apply to assets purchased after Budget day. The old rules will continue to apply for assets purchased before this date.

LAQC and QC changes

- 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.

Where does this leave the rental property investor?

Although investors have lost the right to depreciate their properties from 1 April 2011 rental company losses will still be able to be utilised against other income. This is good news for people who have largely negatively geared their investment properties.

Losses of rental properties have not been ring-fenced so the losses can still be offset against other income.

It is the building proper that investors will be denied depreciation on.

Repairs and Maintenance and chattel depreciation will still be claimable. The definition of fit outs will be crucial to many claims.

Working for Families Tax Credit

A loophole has been blocked where the definition of income was largely the taxable income definition.

Investment losses will now not be able to be taken into account when calculating entitlement to the WFTC.

A discussion paper will be released to look at other methods of calculating entitlement such as including income from trusts. These changes will be introduced to take effect from 1 April 2011.

Attribution Rules

No changes announced here.

For clients who operate through business structures and who have to attribute their income to themselves personally (because 80% or more of their income is earned from one customer) there is still a benefit in using a company structure, if they earn large incomes and wish to gift to a trust their surplus earnings they do not spend.

Trusts

No changes here except the Government is going to investigate income received by trusts where beneficiaries are eligible for Working for Families Tax Credits.

