



2010 Budget

New Zealand Budget Overview

Bill English's second Budget is undoubtedly more audacious than his first. It includes a number of changes to the tax system which were telegraphed well before the Finance Minister's speech. They include an increase in GST to 15%, the removal of depreciation allowances on residential and most other buildings and the removal of the 20% loading on new assets.

Personal tax rates as foreshadowed have been substantially reduced across all income bands with the top rate now 33%.

The very welcome surprise was the reduction in the company tax rate to 28% with an earlier introduction than Australia's similar move.

The Finance Minister emphasised the Government's commitment to shifting New Zealanders' investment decisions away from favouring property and toward more productive asset classes.

Personal and Savings Tax Rate Reductions

Personal tax rates will be reduced with effect from 1 October 2010. In addition, the tax rate for most PIEs, Kiwisaver accounts and widely held superannuation funds will reduce to 28% with effect from the same date.

Resident withholding tax rates applying to interest earned from bank accounts will be aligned to personal tax rates with effect from 1 October 2010.

In addition, changes are being made to the way working for families tax credits will be calculated in future.

2011 Personal Income Tax Rates from 1 st October 2010	
0 - \$14,000	10.5%
\$14,001 - \$48,000	17.5%
\$48,001 - \$70,000	30.0%
\$70,001 -	33.0%

Current Personal Income Tax Rates	
0 - \$14,000	12.5%
\$14,001 - \$48,000	21.0%
\$48,001 - \$70,000	33.0%
\$70,001 -	38.0%



GST

The GST rate will increase from 12.5% to 15% from 1 October 2010.

The GST Act currently contains provisions that deal specifically with the transition to a higher tax rate. Businesses will need to prepare for the rate increase and determining time of supply for transactions

will be a crucial part of managing the changes.

Land

Land transactions between GST registered parties will be zero rated from 1 April 2011.

Company Tax Changes

The company tax rate will reduce from 30% to 28% from the start of the 2011/2012 income year.

The rate change will also apply to unit trusts, life insurance companies and superannuation funds. The maximum imputation credit ratio applying to dividends will also be reduced to 28/72. However there will be a 2 year transitional period in which companies may attach imputation credits at the higher rate of 30%, to the extent that tax has been paid at the 30% rate.

Thin capitalisation

The thin capitalisation debt:asset ratio that applies to foreign owned companies will be reduced from 75% to 60% with effect from the start of the 2011/2012 income year. This will mean for some companies a reduction in the amount of interest that may

be claimed for income tax purposes. No reduction to the thin capitalisation ratio for companies with foreign subsidiaries has been proposed at this stage.

QC/LAQC changes

Currently shareholders of LAQCs are able to benefit from the flow through of losses to offset against other income.

The Government proposes that in future QCs and LAQCS will be taxed in a similar manner to Limited Partnerships and receive 'look through' treatment. This will mean from the start of the 2011/2012 year that profits from QCs will be taxed at the shareholder's marginal rate. A paper covering QC and LAQC issues is being issued by the Inland Revenue's Policy Advice Division.



Depreciation

With effect from 21 May 2010, businesses will no longer be able to claim the 20% loading rate on new plant and equipment.

The additional depreciation will however continue to be available to assets acquired before this date.

Property

Depreciation

In addition to the abolition of the loading rate on new plant and equipment, commercial property and rental property owners will no longer be able to claim depreciation on buildings with an expected life of 50 years or more. This change takes effect from the start of the 2011/2012 income year.

Whilst the tax changes announced have fallen short of many experts' predictions

(e.g. ring-fencing of losses), the changes to the QC/LAQC rules, and the removal of the ability to offset rental losses against income for working for families credit purposes could have a significant effect for a number of property investors.

In addition, the Government has announced a further \$26.6 million of funding to enable IRD to continue its focussed programme of audits into property transactions.

Should you require assistance or additional information, please contact your PKF Ross Melville adviser or the tax team:

John Dillon, Partner,
John.dillon@pkfrm.co.nz

Alexandra Hart
Alexandra.hart@pkfrm.co.nz

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