



2011 Budget

New Zealand Budget Overview

The Government had previously announced that this year's Budget would focus on measures to reduce Government borrowing. This will be achieved mainly by a reduction in public expenditure and partial privatisation of some Government investments.

The Finance Minister cited the hangover of the Global Financial Crisis as well as the Canterbury earthquake as major factors contributing to the record \$16.7 billion deficit. The rebuilding of Christchurch alone is estimated to cost \$8.8 billion.

As a result it is unsurprising that the Government has chosen in an election year, to deliver a fairly bland Budget, with delayed implementation of many of the announced tax changes.

Alongside the changes to Kiwisaver, Student Loan scheme and Working for Families previously announced, a new Earthquake Kiwi Bond will be introduced with proceeds going to fund the rebuilding of Canterbury. New thin capitalisation rules will be introduced for foreign banks and the Government also announced a review of the tax treatment of livestock and assets such as holiday homes that have a mixed use.

Kiwisaver

The \$1000 kick start Government contribution will remain; however the member's credit currently worth up to \$1042 per annum will be halved to \$521 for the year commencing 1 July 2011.

From 1 April 2012, the tax free status of employer contributions will be withdrawn and instead employer contributions will be subject to tax at the employee's marginal tax rate.

The minimum contribution by individual members will increase from 2% to 3% from 1 April 2013 and the employer's compulsory contribution will also be raised to 3% from the same date.



Working for Families

Changes to the way in which Working for Families credits are calculated will also take place with effect from 1 April 2012. The income limit above which the tax credit abates will be reduced from \$36,827 to \$35,000. The reduction in credits available for persons receiving income above the \$35,000 threshold will also increase from 20 cents to 25 cents in the dollar.

Example

Average household income two-child family

Mark and Emma's family income is \$77,000 a year – about the same as the average household income and towards the top of the WFF scale for a two-child family. They have two children aged 9 and 11. They currently receive \$54.72 a week in WFF tax credits. From 1 April 2012, as a result of the slightly lower abatement threshold and a slightly faster abatement rate, they will receive \$50.90 a week – a reduction of \$3.82.

Thin Capitalisation

The thin capitalisation rules will be amended for foreign owned banks to limit interest deductions against their New Zealand income. The changes will be effected by increasing the minimum prescribed equity percentage from 4% to 6 % and follows last year's inbound thin capitalisation changes that applied to non-banking institutions.

Student Loans

The Government previously announced that it would be making changes to the Student Loan scheme rules. Some of the key changes are:

- Restricted student loan eligibility for those with overdue loan repayment obligations of \$500 or more;
- Borrowing restricted to tuition fees for those people aged over 55
- Restrictions on course related costs for part-time students
- A widened definition of income for loan repayment purposes
- A shortened repayment holiday period for overseas borrowers from 3 years to 1 year.



Mixed Use Assets

Inland Revenue has previously issued statements on the deductibility of expenditure claimed by holiday home owners where there is a mixed business and private use of the assets concerned. A review of the tax treatment of assets with a mixed use such as holiday homes and luxury boats will be carried out later this year. This could result in a restriction to the deduction of expenditure in the future.

Livestock Valuation

Under current rules, farmers can use one of two methods of valuing livestock for tax purposes and can switch between the two methods, to maximise their tax position. The rules around the methods adopted and the ability to change methods are being considered and a consultation document on this will be issued in due course.

Earthquake Kiwi Bond

A new Kiwi Bond is being introduced, the proceeds of which will be put towards the rebuilding of Canterbury.

For subscriptions of \$1,000 - \$500,000

Maturity	Rate
4 years	4.00 percent per annum

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

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