

# The Informer

## Features

May 2010

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The 2010 Budget Statement was released to Parliament on 20 May 2010. The budget tax changes are described briefly below.

## GST rate increase

The rate of the goods and services tax (GST) will be increased from 12.5% to 15%, beginning on 1 October 2010. The Government considers this increase is more than offset by the reductions to the rates of personal income tax.

## Personal income tax rates reduced

The following cuts have been made to personal income tax rates, also beginning on 1 October 2010.

Income band	Current rates	New rates
\$0 - \$14,000	12.5%	10.5%
\$14,001 - \$48,000	21%	17.5%
\$48,001 - \$70,000	33%	30%
\$70,001 and more	38%	33%

### How will changes to personal tax rates and GST affect me?

Annual individual taxable income	Annual decrease in income tax	Annual increase in GST	Net annual after-tax income change	Net weekly after-tax income change
\$25,000	\$665.00	\$433.49	\$231.51	\$4.45
\$50,000	\$1,530.00	\$817.09	\$712.91	\$13.71
\$120,000	\$4,630.00	\$1,713.97	\$2,916.03	\$56.08

After-tax changes in disposable income presented above, are indicative only.

## Company tax rate

The rate of the company tax will decrease from 30% to 28% from the 2011/2012 income year. Savings vehicles such as portfolio investment entities (PIE's) superannuation funds, unit trusts, group investment funds and life insurance policyholder income will be subject to the same rate. The Government objective is to provide further incentives for New Zealanders to save.

## Trustee tax rate

The current 33% tax rate for trustees is unchanged.

## Qualifying companies

For income years commencing on or after 1 April 2011, qualifying companies (QC's) and loss attributing qualifying companies (LAQC's) will be treated for income tax purposes as "flow through" entities, in a manner similar to limited partnerships. The objective is to address the mismatch between an individual's top personal tax rate (currently 38%) and the lower company tax rate. Loss offsets obtained by taxpayers active in the residential rental property sector are one target of this reform.

## Depreciation

Changes to depreciation tax treatment include the removal of the 20% depreciation loading for new assets purchased after the 2010 Budget.

There will also be a zero depreciation rate for buildings with expected lives of 50 years or more. Repairs and maintenance expenditure by building owners will remain deductible for income tax purposes. Depreciation has been retained for special purpose buildings and structures such as dairy sheds and hot houses.

## Tightening of Working for Families tax credit scheme

The working for families regime has been highly criticised as being open to abuse by high income earners who are able to structure their affairs – perhaps by having income derived through a trust – so their family income is reduced to a level where they are entitled to working for families benefits.

The Budget takes a first step at preventing this from happening.

Reforms in the areas of trust distributions and income cash PIE's will be the subject of further study in a discussion paper. Reforms in those two areas are scheduled to commence from 1 April 2011.

## Increased IRD audit activity

The Inland Revenue Department will receive a funding boost of \$119.3 million over four years, starting in 2010/2011. The extra funding will be used to boost the IRD's audit and debt collection activities along with its compliance activities.

## GST and land transactions

Legislative changes will prevent so-called "phoenix arrangements" involving GST refunds based on transactions where one party claims a GST refund but the vendor is wound up without paying GST. From 1 April 2011, transactions between registered persons involving the transfer of land will be zero rated for GST purposes.

## Our people

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