



Accountants &
Business Advisers

PKF Carr & Stanton Limited

Budget 2010 tax changes – at a glance

The tax package comprises:

Personal tax cuts to reward effort, help families get ahead and encourage savings

- All personal income tax rates will be cut from 1 October 2010.

| 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% |

- After-tax earned incomes at all levels of taxable income will rise by more than the increase in GST.
- Secondary tax and resident withholding tax rates will be reduced from 1 October 2010, to align with the new personal tax rates.
- Individuals and families can work out how Budget 2010 tax changes personally affect them at www.taxguide.govt.nz

An increase in GST to encourage savings over consumption

- GST will be increased from 12.5 per cent to 15 per cent from 1 October 2010.
- Income support and other payments will be increased by 2.02 per cent from 1 October 2010, to compensate for this increase. These payments include:
 - All main benefits, Student Allowances and a number of supplementary benefits.
 - NZ Superannuation, Veterans Pension and CPI-adjusted Government Superannuation Fund and National Provident Fund payments.
 - Working for Families (Family Tax Credit and Minimum Family Tax Credit).

PKF CARR & STANTON LIMITED

PO Box 345
Hastings 4156

119 Queen Street East
Hastings 4122

tel: +64 6 876 8124
fax: +64 6 876 0170

EMAIL

admin@pkfcs.co.nz

WEBSITE

www.pkfcs.co.nz

DIRECTORS

Peter Jackson
Michael Jackson
Campbell Brenton-Rule
Colleen Kaye

ASSOCIATE

Aaron Tyro

We are sometimes asked if we are able to help additional clients. We are a growing firm and do appreciate your referrals. We consider it a compliment when you recommend us to your friends and business contacts.

PKF Carr & Stanton Limited

Reductions in tax for companies and savings vehicles to encourage investment and savings

- The company tax rate will fall from 30 per cent to 28 per cent from the 2011/12 income year.
- The top tax rate for most portfolio investment entities (PIEs) will fall from 30 per cent to 28 per cent, while the other PIE rates drop to align with the new personal tax rates, from 1 October 2010.
- The tax rate for life insurance policy holders and widely-held savings vehicles like unit trusts and superannuation funds will fall from 30 per cent to 28 per cent from the 2011/12 income year.

Changes to depreciation rules to better reflect asset value reality

- No depreciation deductions will be allowed for buildings with an estimated useful life of 50 years or more (such as rental housing and office buildings) from the 2011/12 income year.
- The current 20 per cent depreciation loading on new plant and equipment will be removed, for assets purchased after Budget day.

Stricter tax rules for foreign multinationals to reduce their ability to minimise tax payments in New Zealand

- Tax rules will change from the 2011/12 income year to reduce the interest deductions foreign multinationals can take by having high levels of debt allocated to their New Zealand subsidiaries.

Changes to loss attributing qualifying company (LAQC) and qualifying company (QC) rules to ensure investors are taxed at the correct rate

- LAQC and QC rules will be tightened from income years starting on or after 1 April 2011 to prevent people choosing to have losses deducted at their marginal personal tax rate but profits taxed at the lower company tax rate.
- LAQC's will be treated as a look through entity meaning that where the LAQC has a loss, the loss will still be able to be deducted from the shareholders other income.
- Where it makes a profit, the profit will be taxed at the shareholder's marginal tax rate.
- Rental property investors will still be able to access the rental loss but it will be a smaller loss because of the lack of depreciation claim on the cost of the building.

Making Working for Families fairer

- People will no longer be able to use investment losses, including from rental properties, to reduce their income and become eligible for Working for Families, from 1 April 2011.
- One part of the formula that adjusts Working for Families payments for inflation will be amended because it currently gives higher-income families a greater proportional increase than lower-income families.

PKF Carr & Stanton Limited

Tackling tax avoidance and improving the integrity of the tax system

- IRD will get a significant funding boost to increase its audit and compliance activity around debt collection, the hidden economy and property transactions.
- GST rules will be changed to stop the use of “phoenix” GST fraud schemes.

Questions and Answers

How much does the tax package cost?

The tax package is fiscally neutral to the Government over the medium term. Costs in the first year are \$460 million, but that is simply a timing issue around when different measures can be implemented. The package is revenue positive by the final year of the forecast period, as set out below.

Costs of the tax package in the forecast period

| Costs (\$m) | 2010/11 | 2011/12 | 2012/13 | 2013/14 | TOTAL |
|--|----------------|----------------|----------------|----------------|----------------|
| Personal tax cuts | -2,455 | -3,685 | -3,935 | -4,255 | -14,330 |
| Compensation for GST increase | -420 | -585 | -610 | -620 | -2,235 |
| Companies, PIEs, etc to 28% | -35 | -380 | -505 | -365 | -1,285 |
| IRD implementation costs | -10 | 0 | 0 | 0 | -10 |
| Total costs | -2,920 | -4,650 | -5,050 | -5,240 | -17,860 |
| Revenue raising & savings (\$m) | | | | | |
| GST to 15% (excluding clawback) | 1,590 | 2,235 | 2,345 | 2,460 | 8,630 |
| Tax clawback | 450 | 605 | 640 | 700 | 2,395 |
| GST base maintenance | 15 | 60 | 60 | 60 | 195 |
| Changes to depreciation rules | 140 | 935 | 1,000 | 1,045 | 3,120 |
| Changes to LAQC rules | 0 | 70 | 65 | 55 | 190 |
| Thin cap threshold to 60% | 0 | 200 | 200 | 200 | 600 |
| Changes to Working for Families | 5 | 40 | 75 | 65 | 185 |
| Increase in tobacco excise | 135 | 180 | 210 | 190 | 715 |
| Increased audit/compliance activity | 120 | 210 | 210 | 205 | 745 |
| Total revenue raising & savings (\$m) | 2,455 | 4,535 | 4,805 | 4,980 | 16,775 |
| Estimated macroeconomic effects | 5 | 25 | 205 | 435 | 670 |
| NET IMPACT (\$M) | -460 | -90 | -40 | 175 | -415 |

PKF Carr & Stanton Limited

Why is the compensation set at 2.02 per cent when GST is going up by 2.5 per cent?

We have been advised by both Statistics New Zealand and the Treasury that the expected increase in the Consumer Price Index as a result of increasing GST is about 2 per cent. That is based on prices on items covered by GST going up by 2.22 per cent, but only about 91 per cent of spending on goods and services is on items that incur GST.

How much does the tax package boost the economy?

Treasury's economic models are able to build in some, but not all, of the effects of the tax package on the economy. It estimates the package will increase the size of the economy by about 0.9 percent, spread over seven years.

Doesn't the tax package just favour high-income people?

Not at all. Higher-income earners get the most benefit from income tax cuts, but they also bear most of the cost of other changes such as those around depreciation.

The overall result is the tax package has a broadly even impact across household groups defined by income (see table below and graph on the next page).

Impact of the tax package as a percentage of average disposable income, by bands of household incomes

| | Less than \$40,000 | \$40,000 to \$85,000 | Over \$85,000 |
|---------------------------------|-------------------------------|---------------------------------|--------------------------|
| Personal income tax | 0.9% | 2.8% | 4.2% |
| GST | -2.5% | -2.5% | -2.6% |
| Compensation via income support | 2.6% | 0.6% | 0.1% |
| Other measures in the package | -0.3% | -0.5% | -1.0% |
| Net impact | 0.7% | 0.4% | 0.7% |

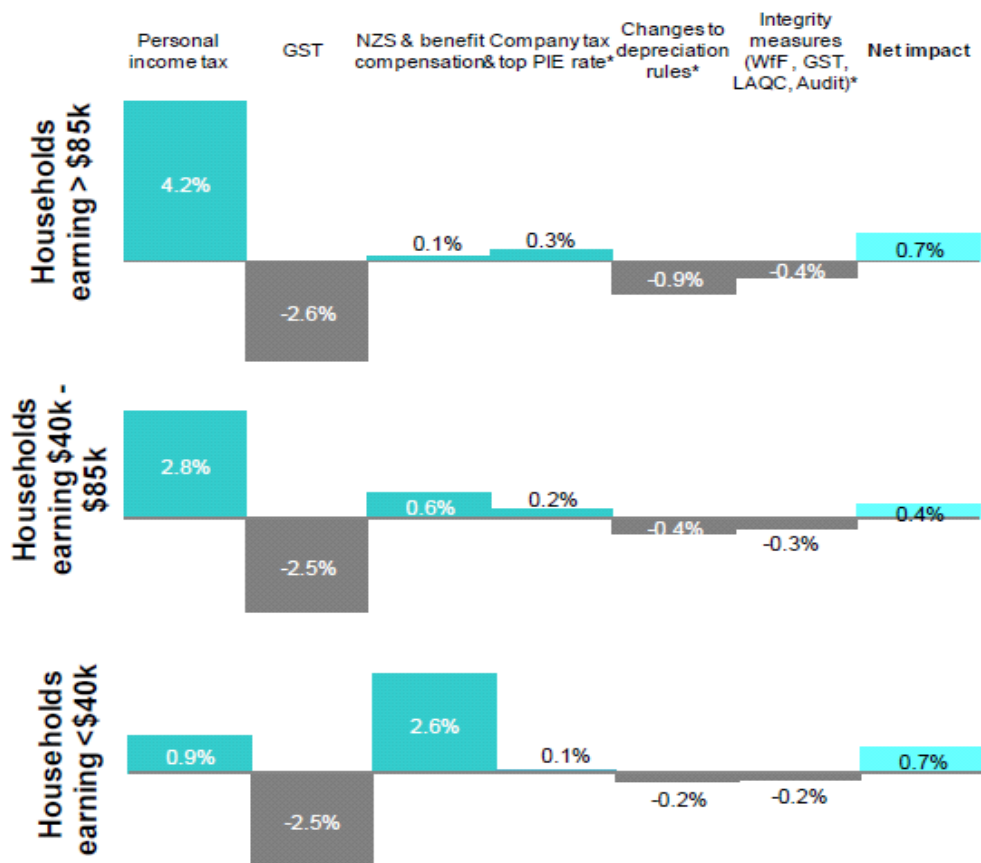
In addition, aligning the top tax rate with the trust tax rate at 33 per cent ensures wage earners in the top tax bracket like many high-school teachers, nurses and police no longer pay a higher rate of tax than wealthy individuals who have been able to structure their affairs to effectively select the tax rate they want. A recent IRD survey of the 100 wealthiest New Zealanders found only half were paying the top tax rate. It also helps attract and retain these skilled New Zealanders, who might otherwise look for better opportunities overseas.

PKF Carr & Stanton Limited

Impact of tax changes on households

While higher income earners receive larger income tax reductions, they also bear the impact of most of the tax base broadening. The table below estimates the impact of the tax package on households at different income levels. The net gains are distributed broadly proportionally across household income groups.

Estimated impact of tax changes as % of the average disposable household income



* indicates that because part of the impact of these measures is on companies, this impact has been partially allocated offshore and partially through dividend distribution data to households

Where possible, the static fiscal impacts for the 2011/12 year have been allocated to three household income bands. Where the main impact of a tax measure is on companies or trusts, the allocation to households reflects current dividend payment patterns.

Some of the impact of the tax package (eg, changes to thin capitalisation rules and some proportion of the changes to the company tax rate and depreciation rules) has been allocated to non-residents and so is not shown here.

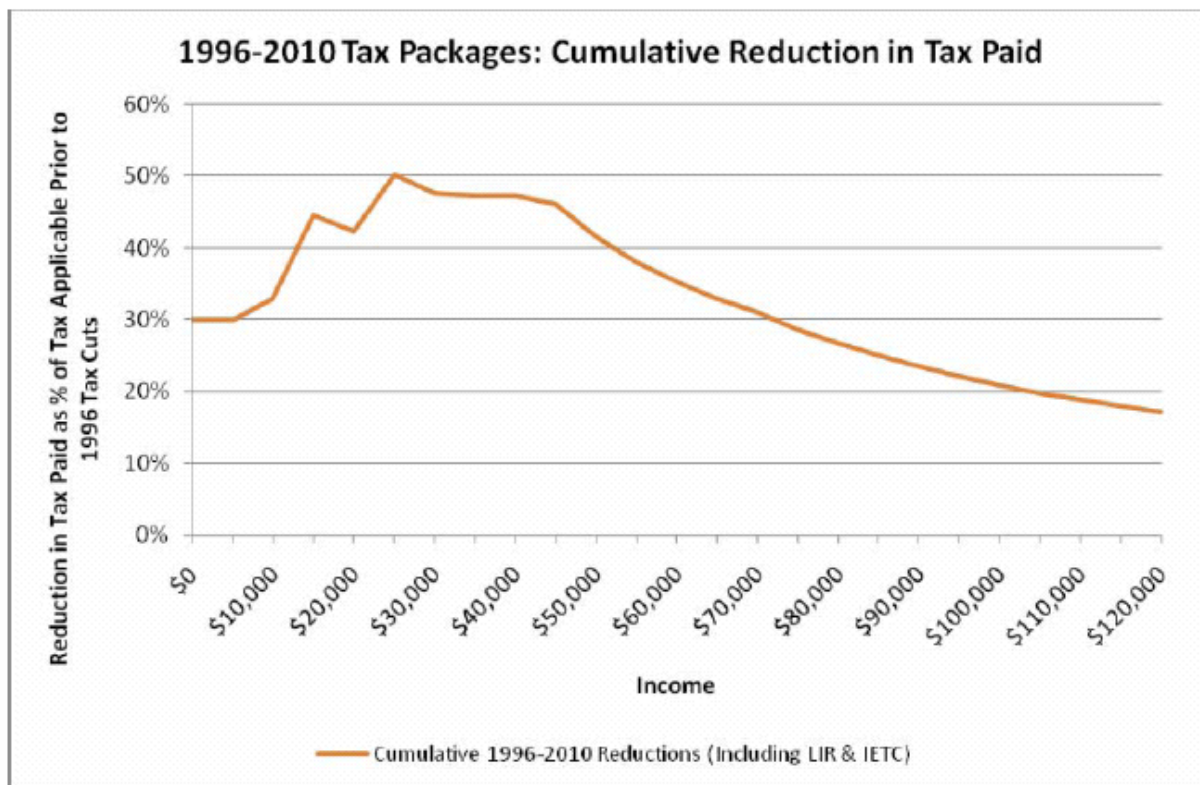
The allocations are based on Household Economic Survey and Survey of Family, Income and Employment data sourced from Statistics New Zealand.

PKF Carr & Stanton Limited

How much of the tax package goes to middle-income earners?

Looking at the collective impact of all tax cuts since 1996 - including Budget 2010 and excluding Working for Families – it is clear that low and middle income earners have been the big winners.

After the Budget 2010 changes, workers earning between \$15,000 and \$50,000 a year are now paying between 40 and 50 per cent less tax than they were in 1996. The proportionate gains then fall away for people on higher incomes.



This chart shows only changes to personal income tax rates including the Low Income Rebate, which was an integral part of the tax scale from the 1980s until 2008, and the Independent Earner Tax Credit, introduced in 2009.

Important Disclaimer

No person should act or rely upon any matter on information contained in or implied in this publication without first obtaining advice from a qualified adviser that relates specifically to their particular circumstances. This publication should not be regarded as offering a complete explanation of the taxation matters referred to. PKF International Limited is a network of legally independent firms and does not accept any responsibility or liability for the actions or inactions on the part of any other individual member firm or firms.