

Budget Special

From PKF Carr & Stanton Ltd, Hastings

PKF

Accountants &
Business Advisers

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2011 Budget

The 2011 budget has been delivered from the Beehive with New Zealand staring down the barrel of a record \$15 to \$17 billion deficit. International credit agencies are breathing down Bill English's neck and his "zero budget" sees changes to KiwiSaver, Working for Families and an austere public sector savings regime.



This restraint is due to several factors, the most notable being the multi-billion dollar Canterbury earthquakes that have helped push Government borrowing to \$380m a week!

We bring you a quick summary of "Bill's Budget".

"Bill's Budget" Snap Shot

- KiwiSaver
- Working for Families
- Student Loans
- Livestock Valuation
- Mixed Use Assets
- Thin Capitalisation
- Privatisation
- Rebuilding Christchurch



Disclaimer

No person should act or rely upon any matter or 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.

What we can do for you:

Planning & Advice:

- Tax planning
- Asset protection and succession planning
- Exploring opportunities overseas
- Trusts
- E-commerce
- New business set-up and advice
- Organising and assisting with loan finance
- Feasibility studies
- Business plans
- Budgeting and cashflow forecasting
- Advice on buying or selling a business
- Valuations of shares and business
- Business structures and company formation
- Matrimonial property dissolutions
- Employment incentives, contracts and redundancy
- IRD investigations and audits
- Company taxation, dividend and imputation credit issues

Computer Services:

- Supply, installation and support for accounting software packages
- Systems evaluation
- Computer hardware support

Ongoing Support:

- Business management support and advice
- Monthly and periodic reporting
- Cost and management accounting
- Preparation of annual financial statements
- Tax accounting and compliance
- GST and FBT return preparation

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KiwiSaver

The \$1,000 kick start Government contribution will remain.

Government will halve its weekly contribution from 1 July 2011 from a maximum of \$20 per week, to a maximum of \$10 per week.

From 1 April 2012, employer contributions will be subject to tax at the employee's marginal tax rate, with the removal of the exemption from Employer Superannuation Contribution Tax (ESCT) from this date.

Example

Additional cash cost / (saving) per week

Income	Employee	Employer	Government
\$35,000	\$6.73	\$6.73	(\$3.42)
\$70,000	\$13.46	\$13.46	(\$10.00)
\$90,000	\$17.31	\$17.31	(\$10.00)

From 1 April 2013 the minimum employee contribution and compulsory employer contributions will increase from 2% to 3% each.

Working for Families

There will be a four-stage winding back of the Working for Families tax credit scheme from 1 April 2012, spread over the next 6 years.

The abatement threshold will be dropped from an annual household income of \$36,827 to \$35,000 per year, however the abatement rate increases from 20 cents to 25 cents in the dollar.

Example

Average household income for a family with two children.

John and Anna's family income is about that of an average household of \$77,000 a year, and towards the top of the Working for Families (WFF) scale for a family with two children. Their children are aged 8 and 10. They currently receive \$54.72 a week in WFF for tax credits.

From 1 April 2012, as a result of the slightly lower abatement threshold and a slightly higher abatement rate, they will receive \$50.90 a week, is a reduction of \$3.82 from their current tax credit.

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Student Loans

Some of the main changes to the Student Loan scheme are:

- Students over 55 years old are barred from borrowing for living costs.
- Students will be unable to borrow more if in repayment default for over a year from previous student loans.
- Part-time, full-year students will be unable to borrow for course related costs.
- The student loan repayment threshold will be held at the current rate of \$19,084 until 1 April 2015.
- The repayment holiday for overseas-based borrowers will be shortened from three years to one year, and will need to be applied for, with a New Zealand-based contact person provided.

Livestock Valuation

Under current rules, farmers can use several methods of valuing livestock for tax purposes and have the ability to switch between the methods, in order to maximise their tax position.

The rules around these valuation methods will be reviewed, with an expected tightening of the rules regarding switching between the different methods.

Mixed Use Assets

Later this year there will be a review of the tax treatment of assets with mixed business and private use, such as holiday homes and luxury yachts. In particular, the ability to offset losses against other income will be reviewed.

Thin Capitalisation

The thin capitalisation rules will be changed for foreign owned entities to limit interest deductions against their New Zealand income. The amendments will increase the minimum prescribed percentage of equity for tax purposes from 1 April 2012 from 4% to 6%.

Privatisation

The Government plans to partially sell shares in the four state-owned energy companies – Mighty River Power, Meridian, Genesis and Solid Energy and further sale of shares in Air New Zealand.

Rebuilding Christchurch

The Government will establish a \$5.5 billion recovery fund for Christchurch to pay for new infrastructure and schools, temporary housing, trades training and CBD demolition costs.