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THE BUDGET ISSUE

Photo: Sunday Star-Times

When it rains it pours…

No newsletter in more than a year, then two in two months? It is a bit like the Northland weather – no rain in six months and then we get it all at once.

The recent government budget has prompted this newsletter. We want to provide you with a summary of the key points and how they might affect you.

Tax changes at a glance

The tax package

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

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

Income	Current rate	New rate
$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%

An increase in GST

GST will be increased from 12.5% to 15% from 1 October 2010 (read about the implications for business on page three).

Income support and other payments will be increased by 2.02% 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).

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

The expected increase in the Consumer Price Index as a result of increasing GST is about 2%. That is based on prices on items covered by GST going up by 2.22%, but only about 91% of spending on goods and services is on items that incur GST.

Reductions in tax for companies and savings vehicles (PIEs, Unit Trusts etc)

The company tax rate will fall from 30% to 28% from the 2011/12 income year.

The top tax rate for most portfolio investment entities (PIEs) will fall from 30% to 28%, while the other PIE rates drop to align with the new personal tax rates, from 1 October 2010.

PIEs earn more dough in the latest Budget.

The tax rate for life insurance policy holders and widely-held savings vehicles like unit trusts and superannuation funds will fall

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Tax calendar

July 28

- 3rd instalment 2010 provisional tax (June balance date)

August 28

- 1st instalment 2011 provisional tax (March balance date)

Numbers

Currency	Rate	Rate 1 year ago
NZD/USD	0.685	0.700
NZD/AUD	0.811	0.795
NZD/EUR	0.569	0.513

Source: craigsip.com
Correct at 14 June 2010

(Continued from page 1)

from 30% to 28% from the 2011/12 income year.

Changes to depreciation rules

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% 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 LAQC and QC rules

Loss attributing qualifying company (LAQC) and qualifying company (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.

Working for Families

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.

Tax avoidance

Inland Revenue 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" fraud schemes.

(source: www.taxguide.govt.nz)

Are you a high-earning saver? Read on…

We like the following comments from Gareth Morgan, which relate to those people on higher incomes who have savings. If you have any questions about what Gareth is talking about please contact us.

The suite of tax changes made over the last three years has substantially eased the challenge ahead for New Zealanders looking to build a retirement nest-egg through financial investments.

For investors using PIE investments (like KiwiSaver funds), the marginal tax rates on their savings returns have been slashed. Over the past three years an investor on the average wage ($50,000), that rate has fallen from 33% to 17.5%. For an investor on a high income ($100,000), that rate has still fallen substantially from 39% to 28%.

How does this affect retirement income? Assuming a 20-year savings horizon, constant savings, and a taxable return of 5%pa, an investor on the average wage will have an extra 8.3% of savings in retirement (than they would have under the pre-PIE tax regime). A high-income investor will have an extra 5.8%. As well, retirees will continue to benefit from higher (post-tax) rates of return on their investments, increasing their income.

(source: www.gmi.co.nz)

Student loan voluntary repayment bonus

The government has introduced a 10% student loan voluntary repayment bonus for voluntary repayments that total $500 or more in a tax year (1 April to 31 March).

You don't need to make a voluntary repayment in a lump sum. You could make weekly repayments of $10 throughout a tax year instead of a one-off payment of $500, and still be eligible for the repayment bonus.

Voluntary repayments are payments made on top of what you need to repay for a tax year. They can be a single lump sum or smaller amounts during the year. They will first be credited to any old and current repayment obligations and any amount left is treated as a voluntary repayment.

You're eligible for a voluntary repayment bonus if:

- you're up-to-date with your repayments and filing your income tax returns (if you're required to)
- your loan balance with Inland Revenue is $550 or more at the beginning of the tax year (1 April), and
- your voluntary repayments for the tax year total $500 or more.

Voluntary repayments made to StudyLink will not qualify for a voluntary repayment bonus. You don't need to apply for the bonus, but you do need to have met all your student loan obligations, including making your repayments by the due date, using the correct tax code, and filing your income tax returns (if you're required to).

(For more info go to: www.ird.govt.nz/studentloans/payments/voluntary/bonus)

Implications for business as GST rate rise looms

The Government has increased GST to 15% from 1 October. Start thinking now about the repercussions for your business.

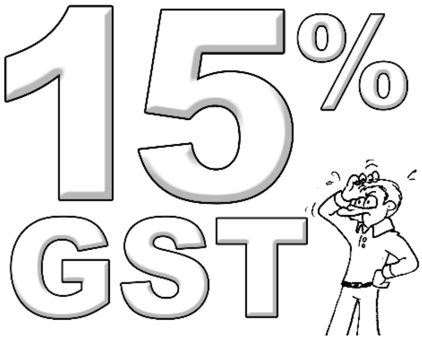
If you are a retailer, you are going to have to reprice all stock. What about prices stated in advertisements?

Are your accounting systems ready? Can you easily switch to the 15% rate when charging or invoicing?

Think about the cut-off. Retail customers are going to want to be billed using the 12.5% rate where possible. This will apply particularly in the housing industry, where the amounts of money are large.

How about cashflow? You are going to be paying more for your goods and the money owing to you (debtors) is going to be bigger. You are going to need to fund this.

When the last GST increase occurred there was a rush to buy goods by 30 September and an unpleasant lull following the introduction of the new GST rate. What can you do, if anything, to combat this? Is it worth promoting your firm as holding GST at 12.5% until Christmas? You would be giving away a 2.5% discount.



There will be some cross-over problems. For example issuing a credit note at the 12.5% rate after 30 September for goods purchased prior to 30 September. Can your system cope with two GST rates at once?

What if you provide financial services? You are not going to be able to pass on the costs. This will affect your pricing.

Consider the business with regular advertisers who pay using automatic payments. They get a discount for this, as it saves a lot of time chasing them for payment, and they have a commitment to advertise for a year. When the GST rise comes through, the business will need to redo all the automatic payments to avoid being out of pocket 2.5% – or they might just wear the cost.

If you are on a payments basis, you will need to make an adjustment for bills sent out before the change-over date. They will have 12.5% GST in them. You will need to be careful you don't find yourself paying 15% GST to the IRD when that money comes in. Those on an invoice basis will, generally, have no such problem.

Start planning now for an increase to 15% GST.

Attracting attention

An insurance company put a bill board on the footpath outside its office.

On one side it warned about tinsel on Christmas trees focusing sunlight and causing a fire.

On the other side it warned about leaving windows open at night and risking burglary.

They were giving away value and attracting attention.

You can use fear to sell

Advertising? Create FUD: fear, uncertainty and doubt.

Think of the old Palmolive Gold soap ad — and the consequences of having body odour.

"Do you have enough car insurance?

What if you collided with a Rolls Royce or a Merc?"

Get the idea?

Kiwisaver reminder

Photo: www.zesprikiwi.com

June 30 is the end of the KiwiSaver year... and member tax credit time.

At the end of June, KiwiSaver providers will be claiming from the government the annual member tax credit money for KiwiSaver members. If you want to be sure you get your full entitlement (it could be as much as $1,042.86 for the year), here's what you need to do:

- Check how much you're eligible to receive
- Check your personal contributions made since 1 July 2009
- Decide whether to make a top up payment

The government will match contributions up to a maximum of $20 per week (or $1043 per year). If you contribute, they contribute. If you don't, they don't. Here are some examples:

	Member since	Maximum eligible for	Personal contributions since 1 July 2009	Top up made	Tax credit due
Natalie	May 2008	$1,042.68	$3,000	$0	$1,042.68
Billy	Jan 2010	$521.43	$0	$521.43	$521.43
Zoë	July 2009	$1,042.86	$100	$0	$100
Millsie	June 2009	$1,042.86	$100	$942.68	$1,042.68

The Back Paddock

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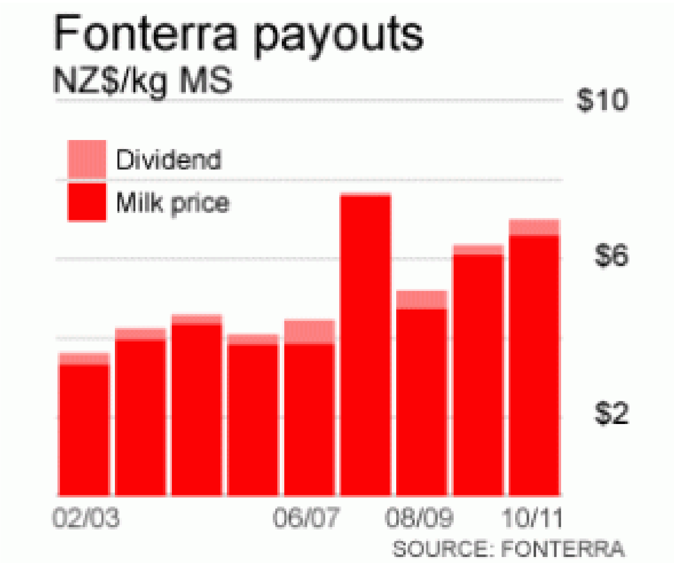
Fonterra announces next year's milk payout forecast

Great news for dairy farmers

Fonterra has announced an opening forecast payout before retentions for the 2010/11 season of $6.90-$7.10. This combines a forecast milk price of $6.60 per kilogram of milk solids (kgMS) and forecast distributable profit of 30-50 cents per share.



This would be the second highest payout in Fonterra's history after the record NZ$7.62/kg in 2007/08 (after retentions). Fonterra chairman Henry van der Heyden said it was possible the final payout could be over NZ$8/kg if the exchange rate and commodity prices stayed at their current levels. This would add up to NZ$2 billion to the economy from the NZ 2009/10 season, assuming the drought of the last few months does not hurt output too much.

Each extra dollar of payout adds around NZ$1.2 billion to the New Zealand economy.

We have our fingers crossed for our dairy farming clients and those that support them. Hopefully the high payout eventuates and it is not eroded by flood, drought or other natural disaster. Traditionally, farm costs including fertiliser and stock food have risen with the dairy payout – farmers will be hoping this trend doesn't continue. Lastly, many farmers are now on floating interest rates (like their city cousins) so will be affected by any increase in interest rates which with inflationary pressure from GST and the dairy sector itself will reduce farmers' incomes.

If it sounds too good to be true…

While the announcement is great news, we would like to preach caution. To understand why, take a look at the following comparison between the season forecast and the actual payment:

2006/07 season forecast at 31/10/06: $4.05

→ *actual payout $4.35*

2007/08 season forecast at 31/07/07: $5.53

→ *actual payout $7.66 ($7.90 less retention of $0.24)*

2008/09 season forecast at 26/09/08: $6.60

→ *actual payout $5.20*

2009/10 season forecast at 30/06/09: $4.55

→ *actual payout $6.40 (as forecast at April 2010)*

2010/11 season forecast at 26/05/10: $7.00

→ *actual payout ???*

What is of immediate benefit to farmers is the increase in the advance rate which will help reduce some of the impact of the drought by putting money into farmers' bank accounts sooner.

(source: www.interest.co.nz and www.fonterra.co.nz)

Don't DIY

"Do it yourself" is a great Kiwi attribute, but not when it comes to tax.

If you are going overseas and need to know whether you will become a non resident, ask us, not the IRD.

They will probably give you an IR 886 form to fill in to help them assess your residency. Completing it is not compulsory and is best avoided.

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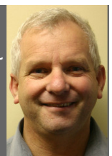

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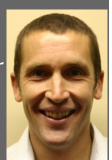

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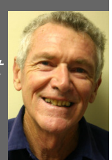

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