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## A budget that sends the right signals for the economy

Welcome to this Budget Edition of Quay Notes. Please keep in mind that the following commentary is based on the Finance Minister's announcement and notes supplied - as legislation is enacted the reality may be different to the intention!

The tax initiatives announced by the government last Thursday are undoubtedly the most wide reaching in the last 20 years to achieve a significant shift in the New Zealand tax system.

For those of you in business, we believe the budget provides a positive package - while the property sector may not welcome some aspects of the announcements, overall business will benefit from the surprise early adoption of a reduction in the company tax rate. The state sector is clearly getting

the message that what is ineffective and inefficient is now unaffordable - the reality is that "change and improvement" is the "new way".

Overall we believe that the Government's package is sending the right signals for the economy, for business and for individuals. The time is right for business (and ourselves as individuals) to look forward, re-evaluate and set new directions.

Over the coming months we will be holding individual seminars and preparing commentary on particular topics affected by the budget announcements - if you would like early advice of dates, please email [reception@qal.co.nz](mailto:reception@qal.co.nz) and we'll ensure you are on the priority mail out updates.

The time is right for business (and ourselves as individuals) to look forward, re-evaluate and set new directions.

## Consumption tax rising - GST is to increase

From 1 October, 2010, GST will rise to 15%. The motivation for changing the tax mix is to provide more appropriate economic incentives - to invest and save rather than consume.

**Remember.** Your systems will need to be updated/updated to accommodate the new GST Rate from 01 October - talk to your client manager now about this and how Quay Accountants may be able to assist.

## Personal income taxes reduced

On average benefits and superannuation will be increased 2.02% which the Government considers will offset the

general cost of living increase under 15% GST.

The current and proposed tax thresholds for individuals are:

Taxable income	Rate (until 31.09.10)	Rate (from 01.10.10)
\$0 - \$14,000	12.5%	10.5%
\$14,001 - \$48,000	21.0%	17.5%
\$48,001 - \$70,000	33.0%	30.0%
\$70,001 plus	38.0%	33.0%

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### Personal income taxes reduced *continued*

The benefits of tax rate alignment mean that the maximum rate (33c) moves to the current trust rate, but retains the 5 cent differential to the new company tax rate - this removes some of the incentive to shelter income in trusts.

There are still major benefits in using

trusts for asset protection purposes and some tax benefits remain in place. The new corporate rate provides significant tax planning opportunities.

**Remember.** Your payroll system will need to be updated to accommodate the new PAYE rates from 01 October.

## Company tax rate to fall next year

The "Budget Surprise" was the reduction in the company tax rate from 33 to 28 cents per dollar - taking the march from Australia, and for once, making New Zealand one step ahead in tax

reforms. This comes into effect for the 2011 - 2012 year.

If you have a company owned by a trust, it may be timely to restructure - talk to your Client Manager now.

## Qualifying Companies (including LAQC'S)

Qualifying Companies ('QC' and 'LAQC's') will be treated as "flow through" entities - just as losses have been able to be passed on to shareholders, income will be passed on and taxed at the shareholder's marginal rate(s). The rationale behind the changes is that a shareholder who receives losses from an LAQC to offset against income at their marginal tax rate should also be subject to tax at their marginal tax rate when the LAQC makes a profit. Currently the profits would have been subject to tax at the company rate.

While trying to remove distortions in the tax system and be fairer, the reasoning seems fair enough. However the effect of the announcements may remove a QC/LAQC from being a company and instead become within the definition of "Partnership" for tax purposes - lots of clarification in the legislation will be needed here!

If you have a Qualifying Company or a LAQC which will generate profits in the next twelve months talk to your Client Manager now

## Depreciation changes

Changes to depreciation rates include the removal of the 20% loading for new assets purchased after budget date (20 May 2010). There will be zero depreciation rates for residential *and* commercial buildings with expected lives of > 50 years. "Fit out" depreciation deductions remain for commercial buildings but are also subject to review. We expect the outcome of these

changes is that all residential and most commercial and industrial property will lose out on depreciation come 1 April 2011.

If you want to know what impact the changes to depreciation and the new income tax bands will have on your personal cash flow, talk to your Client Manager now.

## New income tax rates for PIE's but not trustees

The maximum tax rate for Portfolio Investment Entities (PIE's) reduces to 28%, 21% and 12.5%. The current 33% tax rate for trustees income (that is trust income not allocated to beneficiaries) is unchanged.

Talk to your Client Manager on how these changes may benefit yourself or an investment trust.

## Working for families

From 01 April, 2011, benefits from investment losses will be added back into gross income for benefit determination - a major change if you have a young family and investment losses.

The Minister included in his speech: "Further changes of eligibility for Government assistance including student allowances, distributions from trusts and income from cash PIE's will follow after the budget". So watch this space!

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