

25 May 2010

2010 BUDGET HIGHLIGHTS

Dear Client

Much of the Budget detail has been in the public domain for some time – i.e. lowering personal tax rates, increasing GST and reducing the ratio by which foreign multinationals can obtain interest deductions in NZ. We highlight the key changes below and discuss some of the changes that had not been flagged prior to Budget day and what it may mean for you.

Personal Income Tax Rates

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

<i>Income</i>	<i>Current Rates</i>	<i>New Rates</i>
\$0 - \$14,000	12.5%	10%
\$14,001 - \$48,000	21.0%	17.5%
\$48,001 - \$70,000	33.0%	30.0%
Over \$70,000	38.0%	33.0%

Secondary tax and resident withholding tax rates will be reduced from 1 October 2010 to align with the new personal tax rates.

Portfolio Investment Entities

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

These changes have already been passed by Parliament in the Taxation (Budget Measures) Bill. It is expected to receive royal assent later this week.

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.

Your Chartered Accountants and Business Advisors

BLACKMORE VIRTUE & OWENS

Level 2, 18 Broadway, Newmarket, Auckland 1023
PO Box 9579, Newmarket, Auckland 1149, New Zealand
Telephone: +64-9-520 4089, Facsimile +64-9-524 7580
Email: bvo@bvo.co.nz www.bvo.co.nz

DIRECTORS

Athol Owens BCom, CA, ACIS
Michael Bowden BBS, CA
Julia Owens BBus (Hons), CA
Alexander Houghton BBus, CA

PARTNERS

AR Owens Limited

DM Virtue Limited

AFFILIATED WITH
IMPACT
INTERNATIONAL NETWORK OF
PROFESSIONAL ACCOUNTANTS

Company Tax Rate Reduction

One of the major surprises to come out of the Budget was the drop in the corporate tax rate from 30% to 28% from the 2011 / 2012 tax year – to quote many other commentators, it is a rare opportunity to get “a jump” on our Australian cousins.

The continued mismatch between the corporate, personal and trustee rates will be an obvious tax planning tool that will require careful management given the Inland Revenue’s and the Courts current views of what constitutes tax avoidance.

Whether the change in the corporate tax rate will mean an increase in foreign investment or perhaps a reduction in the number of companies establishing their head offices offshore remains to be seen. Whilst an important factor, the tax rate alone is unlikely to influence that decision.

Property – Negative Gearing Something of the Past?

The proposed changes to the tax treatment of qualifying companies (“QCs”) and loss attributing qualifying companies (“LAQCs”) was significant but perhaps not unexpected given the Government’s focus on the property market.

The changes have been outlined in an issues paper published on Budget day; *“Qualifying companies: implementation of flow-through tax treatment”*. The effect of the proposed changes is that QCs / LAQCs will be removed from the definition of “company” and will instead be defined as a “partnership” for tax purposes. Income and losses will flow through to “partners” and subject to tax at the “partners” marginal tax rate. That in itself may not seem unreasonable, however, a deduction for losses will be limited to the “partners” share capital plus the amount of debt guaranteed by the shareholder.

For example, Fred and Barney have several property investments in Flint Rock Ltd. Share capital is \$100 and they have both provided personal guarantees for company debts totalling \$150,000. The company incurs a loss of \$200,000. Under the current regime, Fred and Barney would be able to offset their share of the loss against other personal income derived. The proposed changes will mean that Fred and Barney can only offset their share of the loss to the extent of their share capital and any debt personally guaranteed (i.e. \$150,100) with the excess loss (i.e. \$49,900) to be carried forward to future income years.

Submissions on the issues paper are to be made by 5 July 2010. If you require any assistance with making a submission please do contact us.

It may be surprising to some that the Government did not go a step further given many “Mum & Dad” property investors were significantly negative geared – the proposed loss limitation rules do not on the surface appear to be that significant.

Depreciation

What will certainly impact on this sector is the removal of depreciation on buildings that have an estimated useful life of more than 50 years with effect from the 2011 / 2012 tax year. It is envisaged that the only buildings that could be depreciated would be certain farm or temporary buildings.

The greater impact is however likely to come from a review of depreciating building fit-out, e.g. partitions, plumbing, wiring etc. The Inland Revenue have released their views on depreciating building fit-out with respect to the residential rental sector and policy makers have indicated that a further review will be commenced targeting the commercial property sector.

This will place perhaps a greater importance on review of lease renewals and ensuring that building owners are able to obtain a full deduction for repairs and maintenance.

Finally, as noted in our March 2010 newsletter, now is the time to ensure that all your systems, contracts and any templates are reviewed to be ready for the GST rate rise on 1st October 2010.

Please contact us if you require any assistance or would like to discuss these changes further.