DowseMurray

Newsletter # 29, May 2010

Budget 20 May 2010 Update

The following is an outline of the major items that may affect you and / or your business from today's Budget announcements.

GST

GST will rise from 12.5% to 15% from 1 October 2010.

Company tax rate

The company tax rate decreases from 30% to 28% from 1 April 2011.

The rate remains at 30% for the rest of this tax year.

The PIE tax rate (on investments) will also reduce to 28%.

New personal tax rates

Personal tax rates have decreased across the Board from 1 October 2010.

Tax rates: individuals	2009/10	2010/11	Composite rate
0 - 14,000	12.50%	10.50%	11.25%
14,001 - 48,000	21%	17.50%	19.25%
48,001 - 70,000	33%	30%	31.50%
70,001 upwards	38%	33%	35.50%

The composite rate is the "average" for the year.

Depreciation changes

New assets: the 20% loading for new assets has been removed effective for purchases made after today.

Buildings with an estimated useful life of 50 years or more: no depreciation from 1 April 2011. This applies to commercial, industrial and residential properties and will apply to almost all buildings.

Building fitout and chattels depreciation: to be reviewed between now and 1 April 2011.

LAQCs

LAQCs will be changed to limited partnerships from 1 April 2011. To date losses have been allocated to shareholders at their top marginal tax rates (often 38%) but any deprecation recovery on the sale of the property has been taxed at the 30% company tax rate, effectively losing the government 8%.

From 1 April the losses will be allocated out to the owners and taxed at the taxpayers own rate (no real change here) but profits for the year must also be allocated out to the owners and taxed at their personal tax rates.

The major change is that losses will only be allowed as a personal deduction to the extent of the shareholder's "investment" in the company. This investment is likely to consist of initial deposits or capital contributions, funds introduced via the shareholder current account and may include debts personally guaranteed.

You can read more about this official's paper at http://taxpolicy.ird.govt.nz/sites/default/files/2010-ip-budget2010-laqcs.pdf. Submissions may be made by 5 July 2010.

Working for Families Tax Credits

Property investors can no longer use their property losses to reduce their taxable income for determining eligibility for working for families tax credits. Nor can these losses reduce your income for student allowance or other benefit purposes.

Redundancy tax credit

The redundancy tax credit has been removed from 1 October. This refund, worth up to $3,600, applies to lump sum redundancy payments. If you have received a redundancy payment in the last few years and haven't received a refund please contact us.

Government spending

The government has budgeted for additional spending on R&D grants and more funding for the science, education and health sectors, and infrastructure.

The government has also announced $120 million additional funding over 4 years for IRD for increased audit work including work on property transactions, a significant increase in funding.

Effects

Some general expected results from this Budget are:

- Personal purchases will cost more from 1 October.
- Rents may increase, both commercial and domestic, if depreciation can't be claimed.
- Companies will have 2 years to use up company imputation credits at 30%. Any unused imputation credits will then be worth 28%.
- Opportunities for allocation of company profits to beneficiaries via dividends paid to a shareholder trust will no longer provide significant tax benefits as the tax rates are now the same for trusts and individuals.
- The new GST component of a purchase price is 3/23 (compared with 1/9 previously).
- If you are registered for GST on a payments or hybrid basis your GST receipts (if on a payments basis) or payments (if on a hybrid basis) received or paid after 30 September will be treated as having been received or paid with 12.5% GST if invoiced by 30 September. This means that if you send out an invoice with 12.5% GST on 30 September and receive the amount on 20 October you only have to pay over the 12.5% GST, not 15%.
- Accumulated depreciation will still be charged on the sale of a building on the basis of accumulated depreciation to 31 March 2011 but no depreciation can be claimed after that date.
- The following were **not** mentioned:
    - Ring fencing of property losses,
    - Capital gains tax on investment property
    - Land tax.

Note that the Budget announcements have not become legislation yet so changes may still be made and some of the details have still to be finalised.