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Accountable News

– Budget 2010 Special

Quote

"Tax reform is centerpiece of this Budget. We want a system that rewards effort and helps families get ahead."

Finance Minister Bill English

Editorial

The budget delivered yesterday is easily the most significant in more than 20 years. The media focus has been an analysis of who is better off and who is worse off. It seems to me that the majority of New Zealanders are going to be better off and very few, if any, are going to be worse off. The media and most of their pet commentators tend to focus on the budget as a static state document. No economy is static and this budget like all others must be viewed in a dynamic context. When considered in that light it is a hugely significant document. It is significant not only in terms of the restructuring process it commences but also because it starkly outlines the differences in the political divide. Previously we had a government that accepted the economy and used the budget as a device for equalising wealth and incomes. In contrast the present government see the budget as a means of building a better and stronger economy. I don't want to go into the philosophies that underlie these differing points of view but it is worth remembering two key statistics. The first is that 46% of New Zealanders pay only 8% of the tax required to run the country. The second is that 3% of New Zealanders pay 26% of the tax required. The third is that 17% of skilled New Zealanders live overseas. The implications of this are huge; the Government having to borrow to balance the books, accumulating national debt, substandard national services etc. The restructuring and realignment of which this budget is (we hope) just the beginning was vitally and urgently necessary.

DODD & ASSOCIATES LTD

Chartered Accountants

Quote

"The reduction in the top personal tax rate to 33 cents will be a major benefit to thousands of small businesses who pay that rate"

Business NZ Chief Executive Phil O'Reilly

Tax Rates Table

Changes to personal income tax rates from 01 October 2010:

Income	Current Rates	New Rates
$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%

If you would like to work out how much you will receive from these tax cuts go to www.taxguide.govt.nz and simply enter your gross annual salary.

Changes to Companies and Trusts tax rates from 2011-12 financial year, ie. April 01 2011 for most:

Entity	Current Rate	New Rate
Companies	30.0%	28.0%
Trusts	33.0%	33.0% - no change

Dates Schedule

Important dates to remember over the following year:

Date	Changes
20 May 2010	No depreciation loading claimable on new asset purchases
01 October 2010	Tax cuts activated
01 October 2010	GST increases to 15%
01 October 2010	PIE tax drops to 28%
01 April 2011	Depreciation on buildings with useful life of 50 years or more is no longer applicable
01 April 2011	Investment losses no longer deductable for Working For Families Tax Credits calculation
2011 / 12 financial year	Company tax rate reduced to 28%
01 April 2011	QCs and LAQCs become flow through entities similar to limited partnerships.

Tax Optimisation

We have always prided ourselves on our skills in keeping our clients taxes to the legally lowest possible level. The previous tax structure with the differential tax rates made that essential but also provided a pathway with guidelines on how our processes needed to be structured. We have already noted that in the new regime starting for most from 1 April next year opportunities continue to be available for us to work with you to keep your taxes to the legally lowest level.

Company Tax

The company tax rate will fall to 28%. Yippee. Great news but there are some implications. The 28% rate will start from the beginning of your company's 2011/12 financial year. There will be a number of issues that arise as a consequence of this. Provisional tax recalculation and grandfathering of ICA accounts are just two. Some commentators have expressed some surprise at this reduction but for those of us who are keeping in touch with the wider economic environment there is no surprise at all. Neville forecast the 28% during a TV interview a week ago. Even IRD signalled to the government with their briefing to the incoming Minister after the last election that a reduction in the company tax rate was becoming necessary for the sake of the economy. The recent moves announced by Australia made the reduction in company tax inevitable. What is impressive is that the government had the courage to do so in advance of the Australian reduction.

Imputation Credit Accounts

The change to the Company tax rate from 30% to 28% will impact on the imputation credit account that every Company maintains. Every company will be faced with the having to use the imputation credits accumulated at 30% prior to 31 March 2013. This was the same situation when the Company tax rate changed from 33% to 30%. If your company is affected by this change you can expect that between now and then we will be monitoring and discussing with you the best way to deal with this.

Changes to LAQCs

In the lead-up to the Budget, there was some speculation that the days of LAQCs were numbered and that property losses would be ring-fenced in the vehicle making the investment. There were sound reasons for the introduction of the LAQC regime in the first instance and those reasons have not gone away. It is therefore good that the government have decided only to modify the LAQC regime. Currently with a LAQC any loss is passed from the Company to the shareholder to offset any income they earn personally whilst any profits are usually retained in the Company and taxed at the Company tax rate.

The change is that the taxation of a LAQC will be similar to that of a limited partnership. This means that where a LAQC generates a profit it will be taxed at the marginal tax rate of the shareholders and not at the Company tax rate. This could mean that shareholders pay more tax than what they would have in the past. The new regime will limit the amount the shareholder has invested in the LAQC.

This budget is not the death knell of the LAQC and our initial assessment is that for many of our customers it will be business as usual with minimal changes (if any) required. It will be important though that we review each case on its own merits. Typically, there is going to be a lot of fine print around this change so at this stage we don't expect to begin that review process until after final legislation is passed.

Property Investors

Most property investors will be heaving a large sigh of relief that losses will not be ring fenced. From a purely academic point of view not allowing depreciation on buildings which will last more than 50 years is disappointing. There are good theoretical reasons why depreciation should exist. Property investors who listened to our advice will not be fazed by the budget announcement of no depreciation on buildings. We always pointed out that depreciation claims needed to be viewed as a tax holiday rather than a tax cut. More prudent clients have elected not to claim depreciation on buildings. For them it will be business as usual. In the final analysis we believe that the property market will settle fairly rapidly and it will be business as usual. If property was a good investment before this budget it will continue to be a good investment after this budget.

Working For Families

Working for Families has real integrity issues and Budget 2010 has taken the first steps to address this. Anyone with an investment loss will be adversely affected. The Government has moved to exclude the deduction of investment losses from income for Working for Families credits. Investment losses include losses from rental properties and trading in shares on revenue account. Currently business losses and carried forward losses are excluded and so this bring all losses into alignment. Now the entitlement will be based solely on income received before any allowance for losses. What is means is that people who had losses and received working for families will no longer receive it or will receive a greatly reduced sum. This change applies from 1st April 2011.

Increase in GST Rate

- Be very careful in the lead up to 1 October 2010 that you prepare quotes on a "plus GST" basis, or with an acceptance date of 31 September 2010. If you just give a total cost you may not be able to enforce an increase if someone waits until after this date to accept your quote.

- Similarly you will need to be careful with Credit Notes if they are issued after 1 October 2010 but relate to purchases made / work done prior to this date. You need to ensure your system doesn't calculate GST on the credit at the new rate when you only collected it initially at the old rate.

- Remember the increase is to the GST component only – so when recalculating prices you need to remove the GST at 12.5% and then add it back at 15%. It's not simply a matter of adding 2.5% to your old price.

  Eg. If you currently charge $45 an hour including GST at 12.5% then your GST exclusive charge out rate is $40 per hour which then becomes $46 per hour including GST at 15%.

- Everything that includes GST will change as at 1 October 2010 and you need to be geared up and ready prior to this date. Over the next four months start taking a close look at how you collect your income and pay your bills. If your customers pay you by automatic payment these will all need to be changed so the increased GST takes effect from 1 October 2010. Similarly, anything you pay by automatic payment will need updating. Make sure you issue, and / or sign & return, any new automatic payment forms well ahead of time (after checking the dates and amounts are correct, of course) as this process is going to put a strain on all the banks and any hold ups could see a delay in collecting the right amount of revenue, or you could face penalties and interest if you aren't paying the correct amount to others.

- Check any long term contracts to see if they can be altered for the increased GST. Once again it depends how these were agreed to – if they are for a set amount plus GST then they can be increased in line with the GST increase. However, if they were just for a set amount per week/month/annum you may have a hard time convincing customers to pay you the extra. The same thing goes for supplier contracts – you need to know which payments are going to change and what the new amounts will be.

- START NOW! The next four months is going to go very fast. Start thinking about your pricing now. If you have a lot of different stock items or variable pricing structures you have a lot of work to do. This is also a good time to look at your pricing overall. If you haven't increased prices for a while you could look at incorporating some price increases now too.

- And last but not least we are always here to provide guidance. We would like to stress however that the period between now and 1 October 2010 is our busiest time of the year as we are preparing the majority of clients compliance work now so please don't leave things to the last minute. Get in contact early if you require help with these issues so that we have plenty of time to offer you our opinion and discuss the various options.

Helpful Tip for working out GST increase

When working out how much extra you will be paying in GST do not just add a further 2.5% onto the goods.

Remember that the current price of thing you want to work out the new price for is already inclusive of GST. You need to take off the current GST of 12.5% before adding on 15% for the new price.

For example:
Current Grocery bill
= $225.00 per week
Minus old GST of 12.5%
= $200.00
Plus new GST of 15%
= $230.00

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