

Carlton DFK

BUDGET 2010 SPECIAL

JUNE 2010

Following the announcement of the Government's 2010 Budget we bring to your attention the key changes.

Personal Income Tax Cuts

There will be a reduction in personal income tax rates from 1 October 2010:

Income	Current Rates	New Rates
\$0 - \$14,000	12.50%	10.50%
\$14,001 - \$48,000	21.00%	17.50%
\$48,001 - \$70,000	33.00%	30.00%
Over \$70,000	38.00%	33.00%

Consequential changes to FBT, PAYE, ESCT and RWT from 1 October 2010 will reflect the new personal tax rates.

Working for Families

From 1 April 2011, investment losses, including losses from rental properties, will be excluded from the calculation of Working for Families (WFF) tax credits.

The WFF tax credit will continue to be automatically indexed for inflation, however, from 20 May 2010, the level of abatement threshold will no longer be adjusted automatically. This is to ensure that higher-income families do not obtain a greater proportional increase than lower-income families.

Trustee Tax Rate

The current 33% tax rate for trustees is unchanged.

Company Tax Rate Cut

The tax rate for companies and unit trusts will be reduced from 30% to 28% from the 2011/2012 income year.

Provisional Tax Impact

Company and unit trust taxpayers who wish to calculate provisional tax using the uplift method will need to amend the standard formula applied to reflect the new 28% tax rate in the 2011/2012 and 2012/2013 income years as follows:

2011/2012 income year	105% uplift treated as 100% 110% uplift treated as 105%
2012/2013 income year	110% uplift treated as 105%

For taxpayers on the GST ratio method, the amendment will be 95% of the previous rate.

Dividends and Imputation Credits

Dividends issued after the new company tax rate takes effect can be imputed at the existing 30% rate for two transitional years if the company tax has been paid at the 30% rate.

Portfolio Investment Equities Tax Rate Cut

From 1 October 2010, the top tax rate for investors in portfolio investment equities (PIE's), including Kiwisaver funds, will be reduced from 30% to 28%. Other rates for PIE's will be reduced in line with changes in the personal income tax rates.



Interest Deductions for Multinational Companies

From the 2011/2012 income year the thin capitalisation rules will be changed. So, foreign multinational companies will be able to only claim tax deductions for interest payments on debt up to 60% (previously 75%) of their local asset value.

GST Rate Increase

In a bid to encourage savings over consumption, the Government will increase GST from 12.5% to 15% from 1 October 2010. The new GST fraction will be 3/23 which will replace dividing by 9 to determine the GST component on a GST inclusive price.

Taxpayers Registered for GST

All GST registered taxpayers should start reviewing their GST systems to ensure that from the 1 October 2010 they can charge and account for GST at 15%.

Time of Supply

The normal time of supply rules apply during the transition period. Reliance on the normal time of supply rules allows businesses to bring forward invoicing to take advantage of the 12.5% rate. However, if it is evident that the taxpayer is restricting their business practices to bring forward a material number of transactions, IRD may deem such treatment as tax avoidance.

Filing Returns

For registered persons whose return period straddles 1 October 2010, the return will need to be split into two parts – the first covering the period up to 30 September and the second covering the remainder of the return period from 1 October. IRD will provide a special return for this purpose.

For those who return GST on a payments or hybrid basis, the new 15% rate will apply to all payments made or received from 1 October. Such persons will need to adjust for their creditors and debtors as at 30 September 2010 to ensure that supplies provided before 1 October but which have not been paid for by that date will be subject to the old 12.5% rate.

If you are a registered for the payments or hybrid basis, please contact us if you need assistance for calculating this adjustment.

Changes to the Depreciation Rules

0% Depreciate Rate for Some Buildings

From the 2011/2012 income year, depreciation deductions will no longer be allowed for buildings (residential and commercial) with an estimated useful life of 50 years or more. This rule will apply regardless of when the building was acquired.

Where the building is sold in the future for a consideration more than tax book value, depreciation that was claimed previously will need to be returned as taxable income.

An application can be made to IRD for a provisional depreciation rate where it is considered that buildings have an estimated useful life of less than 50 years.

Removal of 20% Depreciation Loading on New Assets

For new assets purchased after 20 May 2010, the allowance to load an additional 20% depreciation charge on new assets will no longer apply.

Capital improvements to existing assets that have been treated with 20% loading will need to be treated as separate items with no loading allowance.

Qualifying Companies (QC) and Loss Attributing Qualifying Companies (LAQC)

For income years starting on or after 1 April 2011, QCs and LAQCs will become flow-through entities for tax purposes – similar to limited partnerships. So, company income and losses will be passed on to the shareholders. The distinction of “LAQC” will be removed.

Distributions and Imputation Credit Account

For tax purposes, QCs will no longer be able to make dividend payments or capital distributions since there will be no retained earnings. Amounts earned by a QC will retain their character in the hands of the shareholders.



The QC will no longer be required to maintain an imputation credit account. Any existing imputation credits held will be extinguished on transition.

Limitation of Shareholder Tax Losses Utilisation

Shareholders can only utilise tax losses to the extent of their investment (this can include a share of any debt guaranteed) in the QC. Excess losses can be carried forward until, for instance, the shareholder's investment in the QC increases. However, an anti-avoidance provision will apply where any investment within 60 days before year end will be disregarded if it is then reduced within 60 days after the year end.

If there are existing losses in a QC, on the transition date they will be allocated to shareholders based on their equity in the company. But these losses can only be offset against shareholders future income from the QC.

Qualifying Company Election Tax (QCET)

QCET will be retained in order to catch situations when an ordinary company enters the QC regime to ensure that retained earnings are taxed.

Shareholders will be separately liable for QCET based on their share of the capital when the company elects to be a QC.

Contact Details

If you would like to discuss this further or have any questions relating to your business affairs please contact **Barry Graham** and **Paul Collins** or your Carlton DFK advisor.

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