



Newsletter March 2010

TAX CHANGES

Over the last 1 to 2 years there have been so many tax changes proposed that it has all become completely confusing. (As if it wasn't already). Most of the tax changes are now law. We have summarised major changes and start dates below.

In addition, the Government are looking at a shake up of the tax system. We look at what changes are likely and what this means for you (in our view - obviously best guess at this stage).

A Changes that are already law

➤ **Motor Vehicles/FBT**

This one has been around for a while but we are not sure how many employers are taking advantage of it.

For vehicles that were purchased after 1 April 2006 or have been owned more than 5 years you have the option to base the FBT calculation on book value instead of cost (although the FBT rate increases from 20% to 36%).

➤ **PAYE tax rates change on 1 April 2010.** Please ensure your payroll staff have the new rates.

➤ There is **now a 12.5% secondary tax rate available** for employees who expect their total income from all sources to be less than \$14,000.

➤ From 1 April 2010 the **new rates for RWT** will be, 12.5%, 21%, 33% and 38%.

If you do not advise the bank of your IRD number or do not make an election, RWT will be deducted at 38%.

For companies the RWT rate is 30%.

➤ Both individuals and companies can now get a donations rebate up to their taxable income (33% for individuals and 30% for companies). Ensure you have proper receipts as due to a high level of fraud IRD are stepping up their audits of donations.

➤ For the **2009/10 tax year trusts now have an extended period** in which to allocate income to beneficiaries, provided the trust deed does not specify that beneficiary income must be allocated within 6 months of balance date.

We are currently reviewing all trust deeds and will contact you if a change is required.

➤ **Relocation expenses** (as defined) are now exempt income to an employee. The change has been back dated to 1 October 2001.

If you have grossed up an employees salary and accounted for PAYE on the expense or treated the expense as a fringe benefit, you should be entitled to a refund.

Please contact Peter Forrest if you want to claim a refund.

➤ The **R & D tax credit** was repealed. Therefore it is only available for the 2009 year.

➤ The compulsory **employer contribution to Kiwi Saver** was reduced to 2%.

➤ The threshold for returning **GST on a Payments basis** was increased from \$1.3m to \$2m.

➤ The threshold for **filing FBT returns** annually instead of quarterly, and PAYE monthly instead of twice monthly, was raised from \$100,000 annual PAYE to \$500,000 annual PAYE.

➤ The exemption for 'Other Non Specified Fringe Benefits' is now \$300 per quarter per employee to a maximum of \$22,500 a year per employer.

➤ **Tax on Overseas Investments**

Because the sharemarket dropped in the 2 years to 31 March 2009, investors have generally not had to pay any tax on overseas investments. Sharemarkets have increased in the year ended 31 March 2010, so investors will, for the first time, be faced with paying tax on 5% of the opening market value.

- **Legal expenses** of under \$10,000 per annum now fully deductible as long as they relate to business not personal transactions. Applies for 2009/10 year.
- **New definition of associated persons** applies from 6 October 2009 for land transactions and 1 April 2010 for all other purposes - basically if you now think you are associated to someone you probably are! The major exclusion is that for land transactions only parents and adult children are not associated.
- **Payroll giving** became possible from 7 January 2010. We are not aware of any firm doing this yet.
- From 1 October 2001 it has now been confirmed that **meal allowances paid to employees** are tax exempt provided certain conditions are met. If you want a list of conditions please contact us or see our website (www.winkerr.co.nz).
- **PIE Rates**
From 1 April 2010 the tax rates on portfolio investment entities (PIE's) will be aligned with current personal tax rate structure as follows:

<i>Taxable income</i>	<i>Taxable + PIE income</i>	<i>PIE tax rate</i>
\$0-\$14,000	\$0-\$48,000	12.5%
\$0-\$14,000	\$48,001 - \$70,000	21%
\$14,001 - \$48,000	\$0 - \$70,000	21%
\$48,001 and over	Any	30%
Any	\$70,001 and over	30%

You need to compare your lowest income for each of 2008 and 2009 tax years with the income thresholds in the above table to determine your appropriate PIE rate.

- The Use of Money Interest rate has dropped from 14% to just over 8%. Taxpayers with a borrowing rate of over 8% may therefore be better using the IRD as a bank.

Remember however there can be penalties for deliberately estimating provisional tax too low. Conversely the interest paid to you on overpaid tax is only 1.82%. So you definitely don't want to pay too much in advance.

B Likely Changes (Our best guess!)

The most likely changes to be announced in this year's budget are:

- a) **Top Personal and Trust tax rates** to be equalised at 33%. This is likely to occur on 1 October 2010 which means that for the 2010/11 tax year the effective top personal rate will be 35.5%,

If you have a 31 March 2010 balance date there would be a tax benefit by increasing expenditure (watch the Accruals rules) before 31 March 2010 and deferring income (if legally possible) to after 1 April 2010.

There is also no need to rush to pay out Retained Earnings from companies.

- b) **Increase GST to 15% from 1 October 2010.**

If you are looking at significant private capital expenditure (e.g. building a house) there is clearly a saving to get as much work done as possible before any increase takes effect.

If entering into business contracts that extend past 1 October 2010 ensure the contract allows you to recover the increased GST rate.

There are a number of other issues that need to be considered but we will cover these once we know for certain what is happening.

Perhaps the one other thing that may need attention as soon as a rate change is announced, is that if you have claimed GST at 12½ % on a holiday home/boat etc you will be faced with repaying it at 15% if the change goes ahead, unless you are able to do a change of use adjustment before then.

- c) **Stop depreciation claims for rental property** and possibly all buildings.

This appears likely to apply from 1 October 2010 to all rental properties, not just those purchased after 1 October 2010.

Given that depreciation claimed on buildings is generally recovered on sale the only real effect of this change will be on your short term cash flow (you will get lower tax refunds if you have been in a rental loss situation). The other impact may be a drop in the price of rental properties, at least until the uncertainty of what is planned is out of the way.

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