

WBB Newsletter - June 2010

Our Topics:

- **The Budget**
- **Personal Property and Securities Act**
- **Team Update**



The Budget

Now that you have had time to digest what was announced in the Government's recent budget, we would like to take the opportunity to summarise this for you.

The Government recently announced a number of significant changes to reform the tax system. The Government claims the changes make the tax system fairer and:

- Reward effort and help families get ahead
- Attract and retain skilled people in New Zealand
- Encourage savings and productive investment

All personal income tax rates will be cut from 1 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%

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

An increase in GST

- GST will be increased from 12.5 per cent to 15 per cent from 1 October 2010.



- Income support and other payments will be increased by 2.02 per cent from 1 October 2010, to compensate for this increase. These payments include:
 - All main benefits, Student Allowances and a number of supplementary benefits.
 - NZ Superannuation, Veterans Pension and CPI-adjusted Government Superannuation Fund and National Provident Fund payments.
 - Working for Families (Family Tax Credit and Minimum Family Tax Credit).

Reductions in tax for companies and savings entities

- The company tax rate will fall from 30 per cent to 28 per cent from the 2011/12 income year.
- The top tax rate for most portfolio investment entities (PIEs) will fall from 30 per cent to 28 per cent, while the other PIE rates drop to align with the new personal tax rates, from 1 October 2010.
- The tax rate for life insurance policy holders and widely-held savings vehicles like unit trusts and superannuation funds will fall from 30 per cent to 28 per cent from the 2011/12 income year.

Changes to depreciation rules

- No depreciation deductions will be allowed for buildings with an estimated useful life of 50 years or more (such as rental housing and office buildings) from the 2011/12 income year.
- The current 20 per cent depreciation loading on new plant and equipment will be removed, for assets purchased after Budget day.

Thin Capitalisation

- Tax rules will change from the 2011/12 income year to reduce the interest deductions foreign multinationals can take by having high levels of debt allocated to their New Zealand subsidiaries.

Changes to loss attributing qualifying company (LAQC) and qualifying company (QC) rules

- LAQC and QC rules will be tightened from income years starting on or after 1 April 2011 to prevent people choosing to have losses deducted at their marginal personal tax rate but profits taxed at the lower company tax rate.
- The proposed changes were released in an issues paper the same day as the budget was announced and contain a number of significant changes. We will comment further following submissions being received and the IRD response later this year.

Tackling tax avoidance and improving the integrity of the tax system

- IRD will get a significant funding boost to increase its audit and compliance activity around debt collection, the hidden economy and property transactions.
- GST rules will be changed to stop the use of "phoenix" GST fraud schemes.



Front page news in the New Zealand Herald last week concerned an IRD victory where the non-payment of market salaries amounted to tax avoidance. There were some special circumstances involved in the case, however, the overriding message of fair commercial salaries supporting each business case is one that WBB has always attempted to endorse and will continue to do so.

Early thoughts on changes

The drop in the corporate tax rate surprised many with New Zealand getting a step ahead of our trans-Tasman neighbours (it might be the only step ahead this year with recent netball and rugby results!!). The change should encourage some companies to reinvest into their business with the focus on technology and productivity. For most small businesses however, the drop in the corporate tax rate will have little impact as tax is still required to be paid up to 33% in order to extract profits. We are considering the impact of the tax rate change and existing structures.

Businesses need to begin their planning for the GST hike ASAP. Some issues to consider include:

- Ability to increase prices to non GST registered consumers
- Changes required to the accounting/reporting and other in house systems
- Review of contracts that cross the date that the GST rate changes
- Impact on cashflow and funding

The depreciation changes went further than what many commentators predicted. The building rate change will impact a lot of investors who will now need to carefully review their cashflow to ensure that they can meet financier and other demands. There are many questions left unanswered regarding the depreciation changes including e.g. guidance as to what building is expected to last less than 50 years, is the R&M definition altered now that capitalised repairs cannot be depreciated.

The will to persevere is often the difference between failure and success.



avid Sarnoff

Personal Property and Securities Act (PPSA)

If you are in business, do you know whether the Personal Property and Securities Act (PPSA) has any affect on you? The cost of not knowing could be devastating.

If you supply goods on credit, have your terms been agreed in writing and are you registering financing statements? Do you realise that whether or not you have reserved title, if you haven't complied with the PPSA, you may lose your goods if your buyer goes into liquidation or receivership?

Similar principles apply to the supply of consignment stock.



If you regularly lease equipment out, and if you haven't complied with the PPSA, do you realise that you may lose your goods if your buyer goes into liquidation or receivership?

Similarly, loans made by owners/related entities to their businesses can be protected with General Security Agreements (GSA's) registration on the PPSA.

Steve Dukeson of Dukesons Business Law says that going on 10 years after the PPSA came into full swing, many suppliers and equipment lessors are still paying a heavy price for ignorance or an unwillingness to pay legal fees to get their houses into order. **Steve was consulted by one business that lost \$250K worth of equipment through not complying with the PPSA.**

Even if you have some knowledge of the PPSA, are you doing everything correctly? If not, Steve says that you could be at risk e.g. if you don't register a financing statement within a certain time.

If you would like to discuss this topic further, please contact Brett Mathers on DDI (09) 486-5872



Perseverance is failing nineteen times and succeeding the twentieth.

Julie Andrews

Team Update

Congratulations to Brett and Josie. They have gained their Certificates of Public Practice from NZICA. This means that from 1 July 2010 they step up their level of responsibility here at WBB.

We are pleased to advise that Pauline Ellingham has joined the WBB team. Pauline has had a history with a client of WBB that goes way back and brings with her advanced knowledge of MoneyWorks and ACE Payroll software packages. Pauline is already using her skills to train our clients in the use of these packages. Please don't hesitate to give Pauline a call should you require assistance with the use of, or training on, these two packages.

Regards

Phil, Lewis, Brett, Josie and the Team

