



A BUDGET UPDATE

June 2010

With the recent budget announcement, and resulting changes in taxation legislation it is timely to provide you with a summary of the implications of these.

At this point we would like to highlight that the Government's proposed changes in relation to companies in the LAQC regime have not yet been finalised and passed into law. There is a Select Committee submission process underway so the relevant legislation may not be enacted until early next year.

All personal income tax rates will be CUT from 1 October 2010 (see table for new rates).

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

Reduction in tax for companies and savings vehicles to encourage investment and savings:

The **company tax** rate will fall from 30% to 28% from 2011/12 income year.

The top tax rate for most portfolio investment entities (**PIEs**) will fall from 30% to 28%, while the other PIE rates will 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% to 28% 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% depreciation loading on new plant and equipment will be removed from assets purchased after budget day.

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

LAQC's and QC's will become flow-through entities for tax purposes with effect from 1 April 2011.

The intention is that all profits and losses would flow straight through to the shareholders. However there will be a loss limitation based on the value of the shareholders investment. This is similar to limited partnerships. QC's and LAQC's will still be a separate entity in law.

This could have significant impact on a number of residential rental property owners.

Personal Income Tax:		
Income:	Current	New Rate:
\$0 – \$14,000	12.5%	10.5%
\$14,001–\$48,000	21%	17.5%
\$48,001–\$70,000	33%	30%
Over \$70,000	38%	33%

Increase in GST

- GST will increase from 12.5 % to 15% from 1 October 2010
- Please see over for more details on this

Attention: FARMERS Emissions Trading Scheme

This affects YOU! We have arranged a seminar in August to inform you of the effects of the ETS. We will send out more details nearer the time.



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GST Changes - the countdown begins . . .

Now is the time to start thinking about the impact of the GST increase on your business. As there is less than four months to go, it is the time to identify potential issues and opportunities within your business. Your Barnes Mossman advisor is available to help you work through these issues and can assist to make the transition as easy as possible.

Below is a summary of the main points which should be considered now to ensure a smooth transition in October:

- ⊕ The GST Rate **increases to 15%** from 1 October 2010.
- ⊕ **The new tax fraction is 15/115 or 3/23** of the GST inclusive amount.
e.g. sale price of \$200 plus GST would equal \$230 including GST total price.
To work out the GST component take the \$230 and **divide by 23 and multiply by 3** = \$30
- ⊕ It is likely that taxpayers on a cash basis will need to make an adjustment, in their 30 September return, for creditors and debtors. We will provide more details on our website regarding this adjustment closer to this date. Alternately, contact us for assistance prior to completing this GST return.
- ⊕ If the rate change occurs part way through a taxpayer's return period, two GST returns will be required. i.e. one to the end of September and one from 1 October 2010 to the end of the GST period. This is relevant for taxpayers filing either two or six-monthly returns.
- ⊕ **Check your computer and accounting system.** You will need to be able to add a new code for the new GST rate, and run both codes simultaneously, can your system cope with this?
- ⊕ It is likely that your computer system will need to be upgraded, if you are running an old version or program, you may face additional issues or costs for an upgrade.
- ⊕ **Test system changes prior to 1 October.**
- ⊕ If you are running spreadsheet templates, these will also need to be updated for the new rate.
- ⊕ If a credit is given for discounts, faulty goods etc on a supply that took place before the new rate took effect, then **the credit note and adjustment should be based on the old GST rate.**
- ⊕ Where pricing is expressed as "plus GST" or similar, the supplier has the right to increase the amount of GST to reflect the new rate. **It is**

recommended that "plus GST" is used in all pricing expressions.

- ⊕ If pricing is stated as "inclusive of GST", there is a risk that the total price is capped and cannot be increased to cover an increase in GST.
- ⊕ When the last GST increase occurred, there was a rush to buy goods prior to the introduction of the new GST rate, which was immediately followed by a lull in spending. Businesses need to be ready for potentially increased demand during August / September and also plan for a possible decrease in sales from 1 October.
- ⊕ You **may need to re-price all stock.** Whether or not you decide to increase prices to pass on the extra GST cost to your customers is a commercial decision.
- ⊕ You will need to update your price lists, packaging, shelves and advertising material.
- ⊕ GST cannot be recovered where a tax invoice shows the incorrect rate or amount of GST. Tax invoices for multiple supplies or scheduled payments, such as for **ongoing lease or rent payments**, will need to be updated.
- ⊕ Ticket sales which span the period of the old rate and new rate, *either*: reserve the right to increase prices after the rate increase (to keep profit margins constant) *or*, build the variable GST component into the pricing model to enable charging of a single face value.
- ⊕ If a business is in a GST refundable situation, there will be an increase in funding required to carry the increased GST costs until the GST refund is received.
- ⊕ If a business is not registered for GST, and does not increase its prices, the increased GST costs will result in additional funding requirements.
- ⊕ **This is an opportunity to explore and alter pricing models, and to encourage "up-front" payments for recurring or ongoing supplies. This could create cash flow advantages for a business.**

If you need help with, or wish to discuss anything related to the GST change, please don't hesitate to contact your Barnes Mossman advisor.

DISCLAIMER

The information contained in this newsletter is of a general nature and should be used as a guide only. Before acting on any of this information, please consult Barnes Mossman Ltd.

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