

BC'S BUSINESS BRIEFS

2011 BUDGET & ELECTION YEAR

The abiding memory of the 2011 Budget is.....

It says a lot that a week after the budget it is actually difficult to remember much about the contents of it and the far reaching impacts the document would have on all of us taxpaying New Zealanders. So to refresh your memory, the headline points from the budget are;

- 1 No increase in total government spending in the next 12 months, although re-allocation of some spending to provide more to health and education and less in other areas;
- 2 Those of us who are Kiwisaver members will receive less of a leg up from the government and employers will have to pay more. The experience from Australia (where the employers contribution is 8%) has been that over a period of time the increased rate of contribution simply gets built in to the effective pay rate of the employee;
- 3 There will be a tightening of eligibility for Working for Families for higher income earners;
- 4 The partial sale of some Government SOE's is foreshadowed with the electricity companies and Air New Zealand targeted to produce a reduction in Government debt;
- 5 Treasury's projections indicate the Governments books coming back into surplus 1 year earlier than previously thought. The Government is now projected to be in the black by 2014/15. However these projections (like any financial projections) are based around a set of assumptions on GDP growth, and the Treasury's track record on growth projection is not exactly stellar. Let's wait and see!

The overall response to the budget has been – well – underwhelming. Whether you agree with the National government's overall economic program or not, one thing is indisputable. We certainly haven't seen an election year budget with goodies dished out to the voters to entice those voters to respond with their vote. This writer doesn't for one minute think that the politicians have miraculously "changed their spots" and become incredibly sensible and economically responsible. I think that this budget really shows the economic position currently faced by us as a country really is finely balanced and another significant financial shock such as an oil shock or another natural disaster could potentially tip us over the edge into a Greece, Ireland, Spain or Portugal.

If there is one message that we as business people should take from the current budget it is that there has been consistency from the current government in it's economic policy from the time it was elected, nearly three years ago now. Their philosophy is most definitely of the centre right, giving incentives for people to work through lowering income taxes as much as they can while at the same time trying to ensure Government is not the dominant player in our economy and allowing the markets to determine successes and failures.



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TAX TIDBITS

- 1 The LAQC tax structure, while still technically in existence, is set to become a relic of the past. With the implementation of the LTC regime ("Look Through Company") the vast majority of LAQC's will eventually transition (for most companies this must be done by 30 September 2011 for maximum tax effectiveness) to become a LTC. The single largest difference between the two is that while LAQC's were not required to return income at the same tax rate as they claimed losses (when a loss company eventually turned to profit), no such advantage is available to LTC's. LAQC's could have their losses claimed at a marginal tax rate of up to 39% while returning income at the company tax rate of 30%. If a LTC has losses flowing through to individual shareholders at personal tax rates, then consequent profits must also be flowed through to shareholders at personal tax rates. If you would like more information on LTC's please come back to us;
- 2 Many small business owners have been involved in gifting programs in the past following the sale of a family assets to a trust in order to protect and preserve assets such as family homes amongst many different types of assets. Gifting programs have been commonplace as the maximum an individual can gift away in a 12 month period without incurring gift duty has been \$27,000 for pretty much as long as this writer can recall. The Government has finally made the sensible decision to abolish gift duty as it was serving very little practical purpose and the cost of ensuring a system was in place to collect and monitor gift duty far outweighed the revenue collected from it. It is proposed that from the 1st October 2011 Gift Duty will be abolished meaning there will inevitably be a rash of one off gifts soon thereafter disposing of loan balances owed by Family Trusts to Trust settlors. It will also alter for many people the advice they will receive when setting up Trusts and settling assets on those trusts. Each situation will be different and before anyone rushes in and makes these decisions we strongly advise that due caution is exercised. Remember once a gift has been made the assets being gifted away becomes the property of the donee and control over that asset is lost;
- 3 One of the reasons for gifting away assets has been to minimize personal assets and ensure that individuals are eligible for rest home subsidies. While these reasons are still relevant the assessment process for eligibility for these subsidies will still be deemed to add back to personal assets certain gifts made;
- 4 The Income attribution rules have been around for many years, however they are still not widely known by many people. These rules are designed for very small business people who are using companies in which to trade and the effect of them in certain situations is to tax those companies as individuals by deeming all profits are the profits of the working shareholder rather than the companies. This can have the effect of taxing those profits at up to 35.5% in the 2011 income year while the company rate for the same period was 30%. Talk to us if you think you are affected as there are some remedies.

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