

BC'S BUSINESS BRIEFS

MAJOR TAX CHANGES ON THE WAY?

The Tax Working Group reported back to government in late January it's findings after researching the current New Zealand tax system for the previous 8 months. The report was produced by a small group of "tax experts" along with representatives of IRD and Treasury and Victoria University's Centre for Accounting, Governance and Taxation.

The report as released appears to focus very much on principles involved in a good taxation system without too much detail. While there has been significant focus from the media on the recommendations surrounding residential rental property, the major thrust of the report is on how to make the tax system more robust and inherently "fair" to all taxpayers in order to reduce the incentive of tax payers to avoid tax. They identify that in principle they believe that lower rates of income tax and broadening the collection base is the preferred means of achieving the aims while not reducing the overall tax take.

Some of the major areas identified as being likely to produce the outcomes desired are:

- 1 An increase in the GST rate to 15% aligned with reductions in the top personal tax rate;
- 2 Alignment of the top personal tax rate with both the company tax rate and the Trustees tax rate;
- 3 Reduction of the company tax rate to ensure we remain an option for overseas investment;
- 4 Imposition of a "Land Tax" on all land holdings with the possible exemption of owner occupied dwellings;
- 5 Some form of limit being applied to residential rental property losses;
- 6 Removal of depreciation allowances on buildings if evidence exists which suggests they do not depreciate;
- 7 Removal of the 20% loading on depreciation allowances for new fixed assets purchased.

While it's hard to argue that the lowering of income tax rates in general is likely to provide less incentive for taxpayers to "structure" themselves so that their exposure to the highest rates is minimized one wonders as to the political will of the government to force changes through if they need to raise GST to compensate for the loss of revenue – perceived or otherwise. Only time will tell what the government thinks of the report, however early indications are that the current year's budget is likely to include the first of whatever recommendations the government decides to take on board.



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TAX CHANGES FOR TRUSTS

From the 2009/2010 income year, the definition of Beneficiary income has been amended to allow trustees to allocate income to beneficiaries to the later of six months after balance date or the date by which the Trust is required to file its tax return. Practically speaking this means that for a Trust with a March balance date the beneficiaries may be allocated 2010 income anytime up to 31 March 2011, so long as the Trust has extension of time privileges for filing its 2010 return by being attached to a Tax agent's agency list who is able to offer those privileges. Clients of this firm qualify so long as previous years returns have been filed on time.

GOVERNMENT RESPONSE TO TAX WORKING GROUP PROPOSALS

Prime Minister John Key today outlined the governments program for the coming year, including their proposals to reform our tax system as proposed by the Tax Working Group. The main areas identified by the government as being desirable for us as a country and politically acceptable are:

- 1 GST may be increased to 15%;
- 2 Personal tax rates will be lowered across the board to ensure we are competitive with other developed countries and Australia in particular;
- 3 Our top tax rates will be progressively aligned with the company and trust tax rate to ensure there is less incentive for individuals to "structure" their way out of the top tax rates;
- 4 Residential rental property losses will have their tax effectiveness limited in some way the details will be announced at a later date;
- 5 There will be changes to the criteria for Working for Families Rebates to make less people eligible for these credits than the current position;
- 6 A number of benefits including Unemployment, Sickness and DPB will have their eligibility criteria reduced with the aim of reducing long term dependency;
- 7 There will be no Capital gains Tax or Land Tax at this time;
- 8 Further incentives may be created to reinforce the need for NZ business' to invest in Research & Development and Science;
- 9 Further reforms are to be expected in the Health and Education sectors to improve the efficiency with which we provide those services.

Ross Baigent

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