

BC'S BUSINESS BRIEFS

BUDGET SPECIAL

The 2010 Budget was presented last Thursday with much fanfare and hype and a significant amount of the information contained within the document having been previously released in one form or other. The major items affecting business have largely been well publicized but include:

- 1 The raising of GST to 15% on 1 October aligned with a drop in personal tax rates at the same time.
- 2 The effective tax rates for 2010/2011 will be:

| Taxable income | Effective Rate |
|----------------------|----------------|
| \$0 to \$14,000 | 11.5% |
| \$14,001 to \$48,000 | 19.25% |
| \$48,001 to \$70,000 | 31.5% |
| \$70,001 + | 35.5% |
- 3 The Company Tax rate will be reduced to 28% from the beginning of the 2011/2012 Income year.
- 4 Tax rates for portfolio Investment Entities will likewise reduce to 28%.
- 5 Depreciation will be eliminated on most buildings from 1 April 2011. Any building with an estimated useful life of 50 years or more will not be able to be depreciated. The Useful Life is the mechanism that IRD use to determine the depreciation rate that attaches to individual assets. Practically speaking this means that if a building of yours is being depreciated at the rate of 3% DV or less then it will be ineligible for Depreciation from 1 April 2011. This covers the majority of buildings.
- 6 The Government has signaled that it is going to move clarify what part of a commercial building fit out is considered to be part of the building and what is excluded and therefore eligible for depreciation. The detail of this change will no doubt be awaited with great interest by those taxpayers owning commercial property with significant fit out and we will address this in a future bulletin when this detail is available.
- 7 Rental Losses will be excluded from the calculation of income when calculating the entitlement to Working for families Tax Credits.
- 8 Many owners of rental properties hold these through a specific form of company known as a Loss Attributing Qualifying Company ("LAQC"). The tax treatment of LAQC's will be changed from the present means where Losses are passed through to shareholders in proportion to their shareholding while any income arising from these structures is taxed at company rates meaning that shareholders have been able to gain the benefit of losses reducing their taxable income often at the marginal tax rate of 38%. However when the company returns to a profitable position, the income is taxed at the company rate of 33%. The changes proposed will alter this to ensure that the treatment of both losses and profits are consistent and will be taxed at the marginal rate of the shareholders.



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GST CHANGES

With the rise in GST to 15% on 1st October, a number of issues will need to be considered by clients both leading up to the implementation date and afterwards. Some of these issues may be;

- 1 How will your business be able to best cope with the increase? Will you be able to pass on the increase to your customers without being affected in terms of sales?
- 2 Will you be a business that expects to see a surge in demand prior to 1st October and a decline after that date and if so, how will this impact on your cashflow?
- 3 Do your accounting/IT systems have the capacity to cope with the change and if so, what will you need to do to ensure you are prepared come 1st October. If not, what are the alternatives and how much lead time will be required to implement the changes along with the costs of implementation.
- 4 How will contracts that span the implementation date be affected? For example, tax invoices issued by a supplier prior to 1st October but received by the purchaser after that date, will need to be correctly processed to ensure that GST is not overclaimed.
- 5 Credit Notes issued after 1st October for Tax Invoices issued before 1st October must be able to be tracked back to ensure that the correct GST rate is applied.
- 6 Any bad debt write off's after 1st October for Tax invoices issued prior to that date need to be tracked to ensure the correct GST write back occurs.

The point about all these examples is that all businesses are likely to have some transitional issues which need to be considered.

IRD FUNDING

While there is no direct implication to many of us, IRD will receive a significant funding boost to increase its audit and compliance activity around debt collection, the hidden economy and property transactions. Currently many businesses have been active for significant time periods without an IRD audit and this funding increase is designed to give IRD more resources for their audit function. Government clearly believes that there are many property transactions happening presently for which no tax is paid that should attract tax and accordingly they are prepared to provide resource to IRD to increase their tax take in this area. The motto is – if you are considering selling property ensure that you have considered the tax implications prior to the transaction as it's too late after it has occurred.

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