



The National Government has been quick to implement many of the measures promised in its 2008 general election campaign. Not only did it introduce under urgency the Taxation (Urgent Measures and Annual Rates) Act before Christmas to implement its tax cuts package but it has also introduced and probably passed (by the time you read this) the Taxation (Business Tax Measures) Act in February to help businesses in the current economic climate. This issue of Tax Brief highlights the main points which are likely to be of most interest to clients.

More tax cuts!

Following on from the headline in the last Tax Brief the Government has announced that further income tax cuts will be introduced over the next three years starting from 1 April 2009. Rates and thresholds for individuals will be as follows:

2009/10 tax year		2010/11 tax year		2011/12 tax year	
Rate	Band (\$)	Rate	Band (\$)	Rate	Band (\$)
12.5%	0 – 14,000	12.5%	0 – 14,000	12.5%	0 – 14,000
21%	14,001- 48,000	21%	14,001 – 50,000	20%	14,001 – 50,000
33%	48,001 – 70,000	33%	50,001 – 70,000	33%	50,001 – 70,000
38%	Over 70,000	37%	Over 70,000	37%	Over 70,000

Independent Earner Tax Credit (IETC)

This new credit is aimed at middle income earners who do not receive core assistance from the Government and represents part of the governments tax cuts package.

From 1 April 2009 an individual earning between \$24,000 and \$44,000 will receive an extra \$10 per week. This amount will increase to \$15 per week from 1 April 2010. Any income earned over the \$44,000 threshold will have the credit abated at the rate of 13 cents in every \$1 which will mean that individuals earning more than \$48,000 will not benefit.

In order to be eligible the individual must be resident in New Zealand and not be receiving an income-tested benefit, Working for Families tax credits or New Zealand superannuation. Those who receive a student allowance, ACC payments, paid parental leave or the accommodation supplement will still be eligible for the IETC if they meet the other eligibility criteria.

A separate PAYE tax code is being introduced for those wage and salary earners who qualify for the IETC. Self employed individuals and those on a non-PAYE deducted salary will receive the IETC when their end of year tax return is filed.

Eligible employees will need to notify their employers of their new tax code.

Other changes

With the tax rate changes there are other consequential changes such as:

- PAYE rates adjusted
- The top RWT rates reduced to 38%
- The Employers Contribution Withholding Tax reduced
- FBT rates are aligned with the new tax rates
- The thresholds for filing an income tax return are adjusted

KiwiSaver

In a bid to make KiwiSaver more enduring and affordable the Government has made several changes to the regime which take effect from 1 April 2009. These include:

- A reduction in the minimum contribution rate from 4% to 2% of employees' gross salary or wage;

- The removal of both the member fee subsidy and the employer tax credit;
- A cap on employer contributions at 2% of employees' gross salary or wage;
- A cap on the exemption from employer superannuation contribution tax at 2% of employees' gross salary or wage; and
- The KiwiSaver Act will be amended to make it clear that upon joining KiwiSaver, no employee can have their gross pay reduced as a result of employer contributions. This is to ensure that the compulsory contributions from their employer are a genuine addition to their existing pay.
- The changes will also provide employers and employees with the ability to negotiate their own arrangements in good faith. The Employer Relations Act amendment relating to KiwiSaver will be repealed from the date of assent of the Employment Relations Amendment Bill.
- The KiwiSaver Act has also been amended to provide some relief from certain compliance regulations so that providers have time to update their prospectuses etc.
- This will impact on the third provisional tax payments (7 May 2009) for March balance dates and (28 July 2009) for June balance dates.
- Increase in the provisional tax use of money interest (UOMI) safe harbour limit from \$35,000 to \$50,000 – this is the amount of RIT beneath which no UOMI is charged for individuals who use the standard uplift method.
- Increase in the GST registration threshold from \$40,000 to \$60,000 of taxable supplies.
- Increase in the threshold from \$250,000 to \$500,000 of taxable supplies below which taxpayers may file GST returns six-monthly.
- Increase in the GST payments basis threshold from \$1.3 million to \$2 million of taxable supplies.
- Introduction of a new threshold of \$10,000 below which all business-related legal expenditure are fully deductible whether it is capital or not.
- Allowing companies and trusts to account for financial arrangements income as cash basis persons and raising the threshold below which taxpayers can use the straight-line basis from \$1.5 million to \$1.85 million (based on the total level of financial arrangements).
- Increase in the PAYE threshold from \$100,000 to \$500,000 below which PAYE can be accounted for on a monthly basis.
- Increase in the FBT annual filing threshold from \$100,000 to \$500,000.
- Decrease in the rate of interest for FBT purposes. From 1 January 2009 the rate of interest that applies for fringe benefit tax purposes to employment related loans decreases from 10.90% to 8.05%.

Repeal of Research and Development (R&D) tax credit legislation

The R&D tax credit regime is being repealed from the 2009 income year. The Government has cited the high compliance cost of the system and the uncertainty of the benefits received as some of the reasons for repealing the regime.

A credit will still be available for qualifying expenses on R&D activities carried out in the 2008/2009 income year. However if the expense does not become eligible for a credit until subsequent years then a credit will not be available in relation to that expense.

The timeframe available for claimants for making adjustments to claims of the credit will still be 2 years from the date on which the tax return is filed.

Taxpayers incurring R&D may wish to consider if expenditure should be incurred prior to the end of the 2008/2009 year.

Tax measures to boost the economy

The proposed package included in the Taxation (Business Tax Measures) Bill introduced measures aimed to help businesses in the current economic climate include:

- Reduction in the standard uplift method for the calculation of provisional tax liability for the 2008/09 and 2009/10 income years for payments due after 1 April 2009. Currently taxpayers can pay provisional tax based on 105% of last year's residual income tax (RIT) [or 110% of the year before that if last year's return has not been filed]. These uplifts will be temporarily reduced to 100% and 105% respectively for remaining provisional tax payments for 2008/09 and those for 2009/10. In the case of companies the uplifts are reduced to 90% and 95% to take account of the reduction in the company tax rate from 33% to 30%.

These changes will all apply from 1 April 2009.

UOMI rate change

The Government has reduced the UOMI rates that taxpayers pay and receive on underpayments and overpayments of tax. These changes reflect the recent movement in the Reserve Bank rate together with the rate setting methodology and are effective from 1 March 2009. The rate has decreased from 14.24% to 9.73% for underpayments of tax. The rate for an overpayment of tax has decreased from 6.66% to 4.23%.

Tax purchase options

Readers should note that tax pooling intermediaries have also reduced their interest costs as a response to the change in UOMI rates. Tax Management New Zealand has reduced their interest cost to approximately 7.75% - a 20% saving on the UOMI rate.

The use of Tax Pooling Intermediaries should be seriously considered by any taxpayers who are borrowing to pay tax as in some instances the finance fees payable are lower than many business overdrafts. If this is of interest you should contact your normal Polson Higgs adviser.

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