
The Special Bulletin

July / August 2010

Budget 2010

Finance Minister Bill English delivered his second Budget this afternoon. In his speech, Mr English said that Budget 2010 has 4 main objectives:

- Lifting the long-term performance of the New Zealand economy;
- Reforming the tax system, to make it fairer, more sustainable and more supporting of economic growth;
- Delivering better public services; and
- Maintaining firm control of the Government's finances.

Lifting the Economic Performance of New Zealand

The Government's focus is on accelerating the recovery and ensuring that the economy expands in a sustainable way. Mr English stated, in his Executive Summary of the Budget, that New Zealand's trend growth rate had gradually declined over recent years. A recent International Monetary Fund report noted that New Zealand's potential growth rate had halved over the past decade, falling to around 1.6% per year in 2009.

To deal with the root causes of this decline, the Government has committed itself to sustained improvements that will tilt the economy away from debt and consumption, toward savings, investment and exports. Mr English says that, as part of the Government's strategy to grow the economy, the Government will focus on:

- Creating a better regulatory environment for business;
- Improving New Zealanders' skills and education;
- Building quality infrastructure;
- Encouraging science, innovation and trade;
- Improving the performance of the public sector; and
- Reforming the tax system.

Reforming the Tax System

Reformation of the tax system is a centrepiece of Budget 2010. In his Executive Summary of the Budget, Mr English says that the Government's objectives are to:

- Encourage savings and productive investment;
- Ensure that the tax system rewards effort;
- Make the tax system fairer; and
- Attract and retain skilled people.

To support these objectives, the tax package introduced in Budget 2010 will address some of the more obvious anomalies in the current tax system. In his Budget speech, Mr English says that the tax package introduced today represents the most thorough and beneficial overhaul of the tax system in 25 years.

Mr English says that the tax package is also broadly neutral in terms of its impact on income distribution. The tax package is based around a shift towards lower and more uniform rates of income tax, more indirect taxation and broadening of existing tax bases. Mr English says that while higher income groups pay more tax and therefore receive larger personal income tax deductions, these groups also bear the impact of most of the tax base broadening. All household income groups will receive, on average, around a 0.5% to 1% increase in their real disposable income.

The tax package introduced today proposes:

- A cut to the **personal income tax rates**, with effect from **1 October 2010**:

Income	Current Rates	From 1 October 2010
\$0- \$14,000	12.5%	10.5%
\$14,001- \$48,000	21.0%	17.5%
\$48,001- \$70,000	33.0%	30.0%
Over \$70,000	38.0%	33.0%

- An increase to the **GST rate** to **15%**, with effect from **1 October 2010** (currently, 12.5%);
- A cut to the **company tax rate** to **28%**, with effect from the **2011- 12 income year** (currently, 30%);
- A cut to the **top tax rate** for most **portfolio investment entities (PIEs)** to **28%**, and a cut to other PIE rates to align with the new personal income tax rates, with effect from **1 October 2010**;
- A cut to the tax rate for life insurance policy holders and widely-held savings vehicles to 28%, with effect from the 2011- 12 income year (currently, 30%);
- That **no depreciation deductions** be allowed for **buildings with an estimated useful life of 50 years or more** from the **2011- 12 income year**. Mr English says that the treatment of commercial building fitout will be reviewed after the Budget and, if necessary, amended prior to 1 April 2011 to clarify the law on the split between buildings which will not be depreciable and separate assets which will continue to be depreciable;
- The **removal of the 20% depreciation loading** on new plant and equipment, for **assets purchased from 21 May 2010**;
- Changes to the **tax rules** applying to **Loss Attributing Qualifying Companies (LAQCs)** and **Qualifying Companies (QCs)** from **1 April 2011**; and
- Changes to the GST rules to stop the use of “phoenix” GST fraud schemes.

The tax rate applying to **trusts** will remain at **33%**.

Better Public Services

In his Executive Summary of the Budget, Mr English states that the Government is determined to focus on the high priority areas. Therefore, 75% of the \$1.1 billion operating allowance (or around \$800 million) has been allocated to improving health and education services and lifting science and innovation. Mr English states that most government agencies will see no additional funding for several years.

Budget 2010 allocates:

- An additional \$2.1 billion to Health over the next 4 years, including \$60 million to boost elective surgery and \$93 million for disability support;
- An additional \$1.6 billion to Education over the next 4 years, including funding for a 4% increase in operating expenditure for schools, \$349 million for school property, \$92 million for Early Childhood Education, and \$48 million for Youth Guarantee; and
- \$321 million to a range of science and R&D initiatives over the next 4 years.

Controlling the Government's Finances

Mr English says that the fiscal outlook has improved from last year. The projected operating deficit for the next financial year is \$8.6 billion, or 4.2% of GDP. And it is projected to improve steadily in each subsequent year, and to reach **surplus** in **2015- 16**.

Mr English says that the Government's long-term fiscal objective is to ensure that net debt is brought back to no more than 20% of GDP by the mid-2020s.

Important: This is not advice. Clients should not act solely on the basis of the material contained in *The Special Bulletin*. Items herein are general comments only and do not constitute or convey advice per se. Changes in legislation may occur quickly. We therefore recommend that our formal advice be sought before acting in any of the areas. *The Special Bulletin* is issued as a helpful guide to clients and for their private information. Therefore it should be regarded as confidential and should not be made available to any person without our prior approval. 192/2010