



# TAX REFORM Summary

National is delivering the biggest reform of the tax system in nearly 25 years. This aims to create a fairer tax system, encourage savings and productive investment, keep skilled Kiwis in New Zealand, and help families to get ahead.

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## THE BIGGEST TAX REFORM IN NEARLY 25 YEARS

Our tax package will cut personal taxes across the board, raise GST, and increase Superannuation, Benefits, and Working For Families payments. It will also cut the company tax rate, reduce the tax rates on savings, and change investment property tax rules.

The reforms will leave the vast majority of Kiwis better off, and tilt the economy towards savings, exports, and productive investment.

The tax package will provide:

- \$15 a week boost for the average wage earner.
- \$25 a week boost for the average household.



## ACROSS THE BOARD TAX CUTS

Income Under \$14,000	Income \$14,001-\$48,000	Income \$48,001-\$70,000	Income Over \$70,000
12.5%	21%	33%	38%
10.5%	17.5%	30%	33%

1 October 2010

Secondary tax and resident withholding tax rates will be reduced from 1 October 2010 to align with the new personal tax rates.

New Zealand families will benefit from tax cuts. They will also benefit further over time from the lift in growth and jobs that the tax package will encourage.

## CALCULATE YOUR TAX CUT



To get a more accurate estimate of how the tax package affects you, visit the tax calculator at:  
[www.taxguide.govt.nz](http://www.taxguide.govt.nz)

### GST

15%



12.5%

1 October 2010

### Super, Benefits & Working For Families

2.02%

Estimated effect on prices of GST rise

1 October 2010

### Company Tax Cut

30%



28%

2011/12 Tax Year

### Tax Rates on Savings

down

1 October 2010 and 1 April 2011

## RAISING GST TO DISCOURAGE CONSUMPTION

The rise in GST will help tilt the economy away from spending and consumption, and towards saving and productive investment.

## LIFTING INCOME SUPPORT

Income support payments will increase immediately from 1 October 2010 to compensate for the rise in GST.

These include:

- Superannuation.
- Veterans Pension.
- Payments from the Government Superannuation Fund and the National Provident Fund.
- Working For Families.
- Benefits.
- Student allowance.
- A number of supplementary benefits.

## ENCOURAGING BUSINESS INVESTMENT

Cutting the company tax rate will help New Zealand companies remain internationally competitive.

## ENCOURAGING SAVING

On 1 October 2010, the top tax rate for portfolio investment entities (PIEs) will be reduced to 28%. Other PIE rates will drop to align with the new personal tax rates on 1 October 2010.

The tax rate for some savings vehicles, such as unit trusts and superannuation funds, will be reduced from 30% to 28% from the 2011/12 tax year.



## MAKING WORKING FOR FAMILIES FAIRER

1 April 2011

From 1 April 2011, people will no longer be able to use investment losses, including from rental properties, to reduce their income and become eligible for Working For Families.

One part of the two-part formula that adjusts Working For Families payments for inflation will be amended because it gives higher-income families a greater proportional increase than families on lower incomes.



## INVESTMENT PROPERTY CHANGES

1 April 2011

For too long, New Zealanders have relied on investment in property speculation. Estimates suggest that in 2008 the value of rental property was more than the value of the entire sharemarket. However, this large asset base generated tax revenue losses for the Government of \$150 million.

On 1 April 2011, the following changes will make the tax system fairer and encourage productive investment and exports.

- Ending landlords' and companies' ability to claim depreciation on buildings with a useful life of 50 years or more. This change begins in the 2011/12 income year.
- Tightening the rules for loss attributing qualifying companies (LAQCs) and qualifying companies. This will stop people using rental property losses to reduce their marginal personal tax rate.



## STRICTER TAX RULES FOR FOREIGN MULTINATIONALS

2011/2012 tax year

Foreign multinationals have been able to load high debt levels on their New Zealand subsidiaries to minimise their tax payments in this country. This is to end. From the 2011/2012 income year we will reduce the interest deductions these companies can claim.



## TACKLING TAX AVOIDANCE

Budget 2010 provides Inland Revenue with \$119 million over four years to focus on debt collection, the hidden economy, and property transactions.

## A BALANCED TAX SYSTEM

The tax package is broadly fiscally neutral and will make New Zealand more competitive globally at a time when many other countries are increasing taxes to tackle rising debt.

## WHAT THE TAX PACKAGE MEANS



### The Average Family Income \$76,000

Mark and Emma have two children, receive Working For Families and pay \$300 a week in mortgage repayments which do not incur GST.

#### After the tax package

They get a household tax cut of about \$46 a week and pay an extra \$21 a week in GST.

>> **\$25 A WEEK BETTER OFF**



### The Average Earner Income \$50,000

Steve is 30 and works as a plumber, earning the average wage. He pays \$120 a week in rent and is saving \$50 a week toward a deposit on his first home.

#### After the tax package

He gets a \$29 tax cut and pays \$13 more in GST.

>> **\$16 A WEEK BETTER OFF**



### A Retired Couple Receiving NZ Super

Pat and Nancy are married, retired and receive Superannuation. They don't have any investments but own their home.

#### After the tax package

They get a tax cut of \$12 a week and a \$10 increase in NZ Super, and they pay \$11 extra in GST.

>> **\$11 A WEEK BETTER OFF**



### A High Income Couple Income \$300,000

Alex and Emily are a professional couple earning \$150,000 each. As the property market took off they realised they could make large gains by investing in housing. They own 10 properties that cost them \$4 million and are now worth \$6.5 million. Rent on their properties returns \$769 a week after interest and maintenance costs. They do not pay any tax on this income because they claim the same amount in depreciation.

#### After the tax package

They pay \$18 more in income tax a week and \$89 extra in GST.

>> **\$107 A WEEK WORSE OFF**