wilco [will comply]
tax + business newsletter

Special Alert: The 2012 Budget

myAccountants

Surprise, surprise - we're in the red!

The world is yet to recover from its prolonged financial crisis but our government is really getting the hang of this scrimping and saving business, walking that fine line between cost cutting and stimulating growth.

With the goal tattooed on Bill English's forehead: returning to surplus by 2014/2015 - he's left no stone unturned in his quest, raiding a little bit from nearly every piggy bank, plugging tax loopholes and selling assets along the way.

The majority of us will be affected by some relatively small changes, none of them completely surprising. There's only $26.5m in new spending (to 2015/16) with reprioritising of $4.4b, in favour of public services (health, education, welfare, law and order), and IRD (for tax auditing and compliance).

In a bid to create 154,000 new jobs (in four years) and substantially lower the unemployment rate, the government has committed $386m over four years for research, science and innovation to increase productivity, strengthen exports and support kiwi businesses to stay ahead of the competition.

Redeveloping the Advanced Technology Institute, increasing funding for national science competitions and supporting world class experiments in universities is all a part of the plan.

Redundant tax credits go

Three tax credits have been axed as they 'no longer fit the purpose for which they were created':

- The tax credit for income under $9,880
- The childcare and housekeeper tax credit
- The tax credit for children's active income

Removal of these tax credits is effective from the current financial year, meaning the last year for their availability through an annual tax return will be the tax year ending 31 March 2012.

To avoid accusations of taxing children's pocket money the government has replaced the tax credit for children's active income with a limited income tax exemption for children. This means a child earning under $2,340 per annum from babysitting or mowing the neighbour's lawn (for example) won't need to file a tax return.

Mixed use assets

In a bid to save $109m over four years, the government has once again targeted mixed use assets.

If you own a bach, a boat or an aircraft that you sometimes rent out then you'll now be required to apportion deductions based on actual income earned and private use of the asset, instead of based on the availability to produce income.

For example if you rented your aircraft for 20 days in a year and used it for 20 days in that year then you will be able to claim a deduction for 50% of general costs associated with the asset.

Kiwi $avers

About 15,000 kiwis are joining the scheme per month and total funds have eclipsed $12b. However the government has pulled an expected U turn with regards to auto-enrolment. Previously this was scheduled for 2014/2015 but public consultation has now been deferred to beyond 2012 due to the expected additional costs of kick-start and member tax credit contributions.

From 1 April 2013 'kiwi savers' will be able to evaluate and compare the performances of different funds. New disclosure rules will ensure fund managers transparently disclose their 'performance' including returns, portfolio holdings and fees.

Sounds promising, but it's unclear who will foot the bill for imposing such regulations - we could see a rise in fees to compensate.

The government has also signalled a review of default provider arrangements to ensure fund managers operate in the best interest of the investors.

'Money doesn't talk, it swears.' Bob Dylan

Mixing up state owned assets

The budget introduces the Future Investment Fund as a holding tank for the expected proceeds (between 5 and 7 billion) from the sale of up to 49% of shares in Air New Zealand and four state owned enterprises under the controversial mixed ownership model.

The Future Investment Fund will pump money into other public assets such as schools, hospitals, KiwiRail and The Advanced Technology Institute with around $559 million already allocated to fund these projects alone.

Marketed as changing the mix of assets rather than an asset sell off, the government has already confirmed that Mighty River Power will be the first in line with an Initial Public Offering expected this year.

Student loans & allowances

As anticipated in Winter Wilco the budget has delivered fresh changes to the Student Loan Scheme:

From 1 January 2013:

§ Student allowances will not be available beyond the first four years of study

From 1 April 2013:

§ The loan repayment rate (for borrowers earning over the repayment threshold) will increase from 10% to 12% of income

§ The voluntary repayment bonus (a 10% discount on voluntary payments) will be scrapped

From 1 April 2014:

§ The definition of 'income' for student loan repayment purposes will be broadened to include other types of income

As the belt tightens, the parental income threshold for student allowances will remain frozen until 2016 and the government will implement an information match system between IRD and New Zealand Customs Service to identify student loan borrowers in serious default.

Changes are designed to ensure the longevity of our Student Loan Scheme and provide better value for New Zealanders.

Changes to livestock valuations

The 2012 budget confirms changes to the rules around the valuation of livestock for tax purposes - a loophole previously signalled for tightening.

Elections to use the herd scheme are now irrevocable (with some exceptions). This is effective from 18 August 2011 and any elections to exit the herd scheme made after this date will not be honoured. We're poised, awaiting further detail on how this will affect farmers.

my Accountants