TAXING TIMES

It's that time of year again... Finance Editor ***Susanna Stuart*** *explains what the new tax changes mean for you*

As a financial adviser, a lot of my work involves getting to grips with new tax legislation, as it can alter the way we save, spend, invest and arrange our financial affairs. Let's face it, nobody really wants to pay more tax than necessary.

Over the past two years there have been a host of tax changes, and more were announced with the 2010 Budget. So as we get our tax returns underway, I thought it would be helpful to explain the changes and to show how they may affect you and your family.

1. PERSONAL INCOME TAX RATES ARE CUT

These affect everyone, so here's a summary table from the IRD website. All rates are ACC-exclusive.

Taxable income tax	PAYE rate up to 30 Sep 2010	PAYE rate from 1 Oct 2010	Average income tax rate from 1 Apr 2010 to 31 Mar 2011
Up to $14,000	12.5 cents	10.5 cents	11.5 cents
From $14,001 to $48,000	21 cents	17.5 cents	19.25 cents
From $48,001 to $70,000	33 cents	30 cents	31.5 cents
$70,001 and over	38 cents	33 cents	35.5 cents

2. RESIDENT WITHHOLDING TAX IS REDUCED

Resident witholding tax (RWT) generally applies to earnings from savings and investments, and is deducted at source. Share dividends are taxed at a flat rate of 33%. Rates were reduced from October 1, 2010 and depend on overall taxable income. Check your RWT rate with your bank.

If your taxable income is...	For interest paid 1 Apr to 30 Sep 2010 your RWT rate is...	For interest paid from 1 Oct 2010 your RWT rate is...	Note
$0 – $14,000	12.5%	10.5%	For a "reasonable expectation" of earning $14,000 or less.
$14,001 – $48,000	21%	17.5%	Default rate for existing accounts.
$48,001 – $70,000	33%	30%	
$70,001 and over	38%	33%	Default rate for new accounts.

3. APPLYING FOR WORKING FOR FAMILIES TAX CREDITS

For the year starting April 1, 2011, the following income will now need to be included in the 'other income' box of the Working for Families Tax Credits application form, along with income from interest, dividends, rents, royalties, estates, trusts and Māori authorities.

- Attributable trustee income
- Attributable fringe benefits
- PIE income
- Passive income of children
- Income of non-resident spouse
- Tax-exempt salary or wages
- Pensions and annuities
- Other payments
- Income equalisation scheme deposits (excludes 'adverse events' deposits)

4. HAVE YOU SET UP AN LAQC?

For many individuals, a common way to invest in rental properties is via a loss attributing qualifying company or LAQC. The ability for LAQCs to attribute losses (and therefore reduce exposure to personal tax) has been removed, which means that existing LAQCs will default to become normal qualifying companies. This has tax implications.

5. MORE TAX EXPOSURE FOR INVESTMENT PROPERTY OWNERS

The claimable depreciation rate on buildings has been dropped from 2% to 0% and applies regardless of when the buildings were purchased. Meanwhile repairs and maintenance can still be claimed as a tax deduction.

6. GOOD NEWS FOR COMPANIES

The company tax rate has changed from 30% to 28% from the 2011–12 income year. However if you have a trust, the trustee income stays at a flat rate of 33%.

Where previously the top personal tax rate was 38% it is now 33%. For most, the reduction in personal income tax will put money in your pockets. But what the tax man gives with one hand, he usually takes away with the other – don't forget the GST increase and rising daily living costs. If there's a theme here, it is this: The government is encouraging us not to spend but to invest – though not in property which is now, tax-wise, less attractive. N

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