Happy returns

Don't dread tax time – you could be in for a windfall. Finance Editor Susanna Stuart talks you through new tax changes

IT'S THAT TIME of year again when our thoughts turn, reluctantly, to tax. But thanks to some tax tweaks introduced by the new Government, we're about to become a whole lot better off.

First up, there are the new personal tax rates, effective from April 1, 2009. If you earn $44,000, for example, you'll now pay $480 less in tax than you would have even under the October 1, 2008 tax cuts that Labour implemented before the elections.

You'll be paying less tax because the various thresholds, where we move up from one tax rate to the next, have been adjusted in your favour. Under Labour the 21% tax rate applied to amounts up to $40,000; now it's been extended to $48,000.

New Tax Rates from April 1	
$0 - $14,000	12.5%
$14,001 - $48,000	21%
$48,001 - $70,000	33%
$70,001 +	38%

The tax tweaks don't stop there: There's also a new Independent Earner Tax Credit (IETC). From April 1, those earning between $24,000 and $44,000 will get a credit of $10 a week. (Although these credits only reward those in paid work, not those on entitlements such as Working for Families and NZ Superannuation, who already receive benefits.)

Again, if you're on $44,000 not only will you get the IETC credit – $520 a year – you also get the tax cut so you'll be $1000 better off.

You're also in for a windfall if:

- You are self-employed and operating as a company. Crack open the bubbly: your company tax rate has been reduced from 33% to 30%.
- You've been made redundant. This isn't a new rule but one worth knowing, given the economic climate. If you have received a redundancy payment you can claim a tax credit of 6 cents in the dollar up to a maximum of $3600. To get the credit, you'll need to complete an IRD claim form (IR524).
- If you give to charity. For those who make qualifying donations to approved charitable organisations, the cost of giving has just gone down. Where once you received a maximum tax credit (formerly known as a rebate) of 33c in the dollar up to the first $1890 of donations, that limit has been removed. Now you can give as much as you want up to the amount of your taxable income. Receipts are still required and the donations must be $5 or over.

See the IRD website for details of other tax credits relating to childcare and housekeeper payments; www.ird.govt.nz/income-tax-individual/end-year/dch-rebates/

But not all changes are about handouts. To help low-income earners manage, National has cut the minimum contribution rate to KiwiSaver from 4% to 2%. The compulsory employer's contribution is also capped at 2%.

Careful; these may have the effect of reducing the level at which we save for our retirement. Those in KiwiSaver will still get a tax credit of $20 a week, and the $1000 kick-start gift from the Government remains in place to encourage new members. However, the employer tax credit is removed.

Overall the new package is the most significant tax windfall we've seen in many years. My advice: Use any extra money in your hand to pay off the mortgage faster, or to top up your retirement savings. N

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