Hon Bill English

Minister of Finance

Hon Peter Dunne

Minister of Revenue

20 May 2010

Tax cuts strengthen economy and help families

Across the board tax cuts and a package of other tax changes will strengthen economic growth and help families get ahead here in New Zealand, Finance Minister Bill English and Revenue Minister Peter Dunne say.

- From 1 October 2010, personal taxes will be cut, GST will rise to 15 per cent and NZ Superannuation, Working for Families and benefit payments will increase – lifting incomes, keeping skilled Kiwis in New Zealand and helping families get ahead.
- From 1 October 2010, the tax rates for most PIEs and bank interest will fall. The tax rate for other savings vehicles will fall to 28 per cent from 1 April 2011 – encouraging savings.
- From 1 April 2011, tighter rules around the taxation of investment property will take effect – making the tax system fairer.
- From the 2011/12 income year, the company tax rate will fall to 28 per cent – encouraging productive investment and lifting competitiveness.

“This is the most significant tax reform package in New Zealand for nearly 25 years. For ordinary New Zealanders, it will reward effort, encourage savings and help families get ahead,” Mr English says.

“The vast majority of people will be better off under the package. For example, a person on the average annual wage of about $50,000 with an average rent or mortgage will be more than $15 a week better off. A typical family with two children and average household income of $76,000 will be about $25 a week better off.

“At all taxable income levels, the personal income tax cuts will more than offset the rise in GST – and low, middle and high income groups broadly receive the same proportionate increase in disposable income.

“As well as improving incentives to work, the package tilts the economy towards savings, investment and exports and away from the unsustainable borrowing, consumption and over-investment in housing of the past decade.

“These tax changes are 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 from the global recession.

"That will help attract and retain skilled New Zealanders who might otherwise look for better opportunities overseas," Mr English says.

Mr Dunne says the changes deliver on promises of a fairer tax regime.

“New Zealand families will benefit from 1 October from tax cuts and they will benefit more over time from the lift in growth and jobs this package will create,” he says.

“Aligning the top tax rate with the trust rate at 33 per cent ensures that wage earners in the top tax bracket - like many high-school teachers, nurses and police - no longer pay a higher tax rate than wealthy individuals who can structure their tax affairs and effectively select the tax rate they want.

“In addition, the package closes loopholes in Working for Families and makes the tax treatment of property more equitable,” Mr Dunne says.

1 October 2010 changes include:

- Across the board personal tax cuts worth $14.3 billion over four years.

Income	Current Rates	New rates
$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%

- Increasing the rate of GST from 12.5 per cent to 15 per cent.
- Tax cuts on NZ Super and a 2.02 per cent increase in payments to recipients of NZ Super, main working-age benefits and Working for Families – reflecting Statistics New Zealand's calculation of the effect on prices of the rise in GST – worth $2.2 billion over four years.
- A cut in the top tax rate for most PIEs from 30 per cent to 28 per cent.

1 April 2011 (or the 2011/12 income year) changes include:

- A cut in the company tax rate from 30 per cent to 28 per cent.
- A cut in the tax rate faced by unit trusts, life insurance policyholders and some other savings vehicles from 30 per cent to 28 per cent.
- Ending landlords' and businesses' ability to claim depreciation on buildings with an estimated useful life of 50 years or more.
- Tightening the rules for loss attributing qualifying companies (LAQCs) and qualifying companies (QCs) so shareholders cannot deduct losses at their marginal tax rate and pay tax on profits at the lower company rate.
- Changes to the thin capitalisation tax rules to limit the scope for foreign multinationals to reduce their New Zealand tax liability.
- Tightening the definition of income for Working for Families eligibility. The new rules will exclude investment and rental losses and end the automatic CPI indexation of the abatement threshold to stop higher-income recipients getting bigger increases than those on lower incomes.
- Increasing IRD audit and compliance activity to improve the integrity of the tax system.

Immediate change:

- Removing the 20 per cent accelerated depreciation loading for new plant and equipment purchased after Budget day.

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