Tax changes – how they affect New Zealanders

1. Average income household

Mark and Emma are in their early 40s and jointly earn the average household wage of $76,000 - Mark works full-time earning $50,000 a year and Emma works part-time, earning $26,000. They have two children and also receive Working for Families. They pay $300 a week in mortgage repayments which do not incur GST. Under Budget 2010 changes, Mark and Emma get a household tax cut of $45.85 a week and pay an extra $21.14 in GST. Overall they are $24.71 a week, or $1284.92 a year, better off.

Mark and Emma weekly income	**Before**	**After**
Regular income	$1461.54	$1461.54
Total taxable income	**$1461.54**	**$1461.54**
Income tax	$265.77	$222.88
Working for Families	$55.60	$58.56
Disposable income	**$1251.37**	**$1297.22**
Change in disposable income due to tax changes	$45.85	
Extra GST	$21.14	
Change in net income	**+$24.71**	
Annual change in net income	**+$1284.92**	

2. Average wage worker

Steve is 30 and works as a plumber. He earns $50,000 a year - about the average full-time wage - pays $120 a week rent towards the flat he lives in and is saving $50 a week towards a deposit on his first home. Under Budget 2010 changes, Steve gets a tax cut of $29.42 and pays $13.51 more in GST. Overall he is $15.91 a week, or $827.32 a year, better off.

Steve weekly income	**Before**	**After**
Regular taxable income	$961.54	$961.54
Total taxable income	**$961.54**	**$961.54**
Income tax	$183.65	$154.23
Disposable income	**$777.89**	**$807.31**
Change in disposable income due to tax changes	$29.42	
Extra GST	-$13.51	
Change in net income	**+$15.91**	
Annual change in net income	**+$827.32**	

3. Couple receiving New Zealand Superannuation

Pat and Nancy are married, retired and receive New Zealand Superannuation. They don't have any investments, but own their own home. Under Budget 2010 changes, they get a tax cut of $11.52 a week, a $10.12 a week increase in their NZ Super payments and pay $10.87 extra in GST. Overall they are $10.77 a week, or $560.04 a year, better off.

Pat and Nancy weekly income	**Before**	**After**
Regular taxable income	$561.24	$561.24
Investment income	$0.00	$0.00
Total taxable income	**$561.24**	**$561.24**
Income tax	$71.82	$60.30
NZ Super adjustment	$0.00	$10.12
Disposable income	**$489.42**	**$511.06**
Change in disposable income due to tax changes	$21.64	
Extra GST	$10.87	
Change in net income	**+$10.77**	
Annual change in net income	**+$560.04**	

4. Professional property investor

Dave is a professional landlord and property investor in his 50s. Over the last 20 years, he has built up a portfolio of 25 properties. Dave's net annual profit from his rental activity, after costs of interest, repairs and maintenance and rates, but before depreciation is $112,000. After claiming depreciation of $52,000 ($1000 a week) on the buildings he owns his net annual profit is reduced to $60,000, which he pays tax on. Under the current rules, Dave can claim depreciation despite the fact that both his houses and the land they are on have substantially increased in value over time.

Under Budget 2010 tax changes, Dave can no longer claim depreciation on buildings. As a result he must now pay tax on $112,000 of annual profit rather than $60,000. Despite personal income tax cuts this increases his weekly income tax by $289.03. As he has less to spend his GST reduces by 85c a week. Overall he is $288.18 a week or $14,985.36 a year worse off.

Dave weekly income	**Before**	**After**
Regular income	$0.00	$0.00
Taxable investment income	$1153.84	$2153.84
Total taxable income	**$1153.84**	**$2153.84**
Income tax (regular income)	$0.00	$0.00
Income tax (investment income)	$247.12	$536.15
Disposable income	**$1906.72**	**$1617.69**
Change in disposable income due to tax changes	-$289.03	
Extra GST	-$0.85	
Change in net income	**-$288.18**	
Annual change in net income	**-$14985.36**	

5. Couple saving for first home

Mana and Liz are a working couple in their early thirties. They have been living together for several years and plan to have children, but want to buy a house first. They have been saving for three years and are currently putting away $200 a week. They both earn $60,000 a year and earn interest on their joint savings of $1000 a year. They pay $250 a week in rent. Under Budget 2010 changes, they get a joint tax cut of $70.96 and pay an extra $30.58 in GST. That leaves them $40.38 a week better off and allows them to save an extra $2,099.76 a year towards their first home.

Mana and Liz weekly income	**Before**	**After**
Regular taxable income	$2307.69	$2307.69
Investment income	$19.23	$19.23
Total taxable income	**$2326.92**	**$2326.92**
Income tax	$500.58	$429.62
Disposable income	**$1826.34**	**$1897.30**
Change in disposable income due to tax changes	$70.96	
Extra GST	$30.58	
Change in net income	**+$40.38**	
Annual change in net income	**+$2099.76**	

6. Domestic purposes beneficiary

Sarah is a solo parent of three children. She receives the Domestic Purposes Benefit and Working for Families. She pays $300 a week rent and receives Accommodation Supplement. Under Budget 2010 changes, Sarah gets a $5.62 a week increase in her benefit and a $4.17 increase in Working for Families. Her Accommodation Supplement does not increase because GST is not charged on rent. Under the changes, she pays an extra $7.34 in GST a week. Overall she is $2.45 a week, or $127.40 a year better off.

Sarah weekly income	**Before**	**After**
Net Benefit	$278.04	$283.66
Accommodation Supplement	$146.00	$146.00
Working for Families	$206.25	$210.42
Disposable income	**$630.29**	**$640.08**
Change in disposable income	$9.79	
Extra GST	$7.34	
Change in net income	**+$2.45**	
Annual change in net income	**+$127.40**	

7. Minimum wage worker

Sam is 19 and works as a store hand at a supermarket earning the minimum wage of $26,520 a year. He flats with friends and pays $100 in rent each week. Under Budget 2010 changes, Sam gets a tax cut of $13.82 a week and pays an extra $7.46 in GST. Overall, he is $6.36 a week, or $330.72 a year, better off.

Sam weekly income	**Before**	**After**
Regular taxable income	$510.00	$510.00
Total taxable income	**$510.00**	**$510.00**
Income tax (including IETC)	$74.22	$60.40
Disposable income	**$435.78**	**$449.60**
Change in disposable income due to tax changes	$13.82	
Extra GST	$7.46	
Change in net income	**+$6.36**	
Annual change in net income	**+$330.72**	

8. Single superannuitant

Norm is retired and receives New Zealand Superannuation. His wife died three years ago and he lives alone in his own home. He has about $200,000 of investments which generate $10,000 income a year. Under Budget 2010 changes, Norm gets a tax cut of $15.77 a week, an increase of $6.61 in his NZ Super and pays an extra $10.44 in GST. Overall he is $11.94 a week, or $620.88 a year, better off.

Norm weekly income	**Before**	**After**
Regular taxable income	$373.56	$373.56
Investment income	$192.31	$192.31
Total taxable income	**$565.87**	**$565.87**
Income tax	$95.95	$80.18
NZ Super adjustment	$0.00	$6.61
Disposable income	**$469.92**	**$492.30**
Change in disposable income due to tax changes	$22.38	
Extra GST	$10.44	
Change in net income	**+$11.94**	
Annual change in net income	**+$620.88**	

9. Business owner structuring income to claim Working for Families

Peter lives with his wife and two children and owns a successful small business which makes a profit of $120,000 a year. His wife Jane doesn't work and they have paid off their mortgage. The business pays Peter a salary of $48,000 a year, which keeps his marginal personal tax rate at 21 per cent. The rest of the business profit is retained by a trust which owns the business. The income is taxed at the trust rate of 33 per cent, then distributed to him in the next financial year – ensuring he does not pay the top 38 per cent personal rate and reducing his tax liability by about $2,500 a year.

Because trust income is not currently counted when assessing Working for Families (WFF) eligibility, he is also able to claim $8,491.40 a year in WFF payments – leaving him almost $11,000 better off than a salary or wage-earner with similar income.

Under Budget 2010 changes, Peter gets a personal tax cut of $28.27 a week. However from April 1 next year - due to trust income being counted for Working for Families - he will no longer be eligible, meaning he can no longer claim a cent. In addition, he pays an extra $18 in GST each week. Overall he is $153.03 a week, or $7,957.56 a year worse off.

Peter and Jane weekly income	**Before**	**After**
Regular income	$923.08	$923.08
Business/trust income	$1384.62	$1384.62
Total Taxable Income	**$2307.70**	**$2307.70**
Income tax (regular income)	$170.96	$142.69
Income tax (business/trust income)	$456.92	$456.92
Working for Families	$163.30	$0.00
Disposable income	**$1843.12**	**$1708.09**
Change in disposable income due to tax changes	-$135.03	
Extra GST	$18.00	
Net change	**-$153.03**	
Total per year	**-$7957.56**	

10. High income couple with property investments

Alex and Emily are an Auckland professional couple in their late thirties. Both have dedicated themselves to their careers and now each earn $150,000 a year. Ten years ago, they mostly invested in shares and managed funds, but as the property market took off they realised they could make large tax-free capital gains by shifting their savings into housing. They now own 10 properties which cost them $4 million. The market value of those properties is now about $6.5 million.

Rents of these properties provide a return of $769.23 a week over and above interest and maintenance costs. But Alex and Emily do not currently pay any tax on this additional income, as they are able to claim the same amount in depreciation. Under current rules they can claim depreciation at a "straight line" rate of 2 per cent of the cost of their buildings a year, despite the fact their houses and the land they are on have increased in value by about $2.5 million in recent years.

Under Budget 2010 changes, Alex and Emily get a combined personal tax cut of $235.76 a week. But because they can no longer claim depreciation on their buildings, their property portfolio now returns a taxable profit of $769.23 a week. That incurs an added tax bill of $253.84 a week. In addition they pay $89.39 more each week in GST. Overall they are $107.47 a week, or $5,588.44 a year, worse off.

Alex and Emily weekly income	**Before**	**After**
Regular income	$5769.23	$5769.23
Taxable investment income	$0.00	$769.23
Total taxable income	**$5769.23**	**$6538.46**
Income tax (regular income)	$1790.38	$1554.62
Income tax (investment income)	$0.00	$253.84
Tax-free income	**$769.23**	**$0.00**
Disposable income	**$4747.85**	**$4729.77**
Change in disposable income due to tax changes	-$18.08	
Extra GST	$89.39	
Change in net income	**-$107.47**	
Annual change in net income	**-$5588.44**	

11. Higher-income family

Paul and Lani are in their early 40s and have three children. Paul is a web developer and earns $100,000 a year while Lani works three days a week as a nurse and earns $40,000 a year. They have a large mortgage and need to make repayments of $600 a week. They receive no Working for Families. Under Budget 2010 changes, they receive a household tax cut of $92.69 a week, but pay $31.64 in extra GST. Overall they are $61.05 a week, or $3174.60 a year, better off.

Paul and Lani weekly income	**Before**	**After**
Regular income	$2692.31	$2692.31
Total taxable income	**$2692.31**	**$2692.31**
Income tax	$668.46	$575.77
Disposable income	**$2023.85**	**$2116.54**
Change in disposable income due to tax changes	$92.69	
Extra GST	$31.64	
Change in net income	**+$61.05**	
Annual change in net income	**+$3174.60**	

12. Student

Aroha is a university student who receives Student Allowance for 40 weeks of the year. She flats, paying $100 a week and receives $40 a week in Accommodation Supplement. She works part-time earning $9000 a year. Under Budget 2010 changes, she gets an increase in her Student Allowance of $3.92 a week paid over 40 weeks, a tax cut of $4.85 a week and pays extra GST of $5.21. Overall she is $2.66 a week, or $138.32 a year better off.

Aroha weekly income	**Before**	**After**
Net benefit	$194.12	$198.04
Taxable income	$173.08	$173.08
Accommodation Supplement	$40	$40
Total income	**$362.40**	**$365.42**
Income tax	$27.97	$23.12
Disposable income	**$334.43**	**$342.30**
Change in disposable income due to tax changes	$7.87	
Extra GST	$5.21	
Change in net income	**+$2.66**	
Annual change in net income	**+$138.32**	

13. Unemployment beneficiary

Scott is 25. He lost his job last year and receives the Unemployment Benefit. He lives in a shared flat, pays $100 a week rent and receives $36 in Accommodation Supplement. Under Budget 2010 changes, he gets a $3.92 a week increase in his benefit and pays an extra $2.89 in GST. Overall, he is $1.03 a week, or $53.56 a year, better off.

Scott weekly income	**Before**	**After**
Net Benefit	$194.12	$198.04
Accommodation Supplement	$36.00	$36.00
Disposable income	**$230.12**	**$234.04**
Change in disposable income due to indexation	$3.92	
Extra GST	$2.89	
Change in net income	**+$1.03**	
Annual change in net income	**+$53.56**	

14. Foreign owned company

A Firm International Ltd is a foreign-owned multinational group with a worldwide group debt percentage of 50 per cent. Its New Zealand subsidiary A Firm NZ Ltd earns gross profits of $8 million. It has interest expenses of $5.6 million, other expenses of $2 million and reported a net profit before tax of $400,000.

A Firm NZ Ltd has a debt percentage of 75 per cent. Under the current settings it is not subject to any adjustment under the thin capitalisation rules because its debt percentage is within the safe harbour. However, once the safe harbour is reduced to 60 per cent an adjustment will apply and A Firm NZ Ltd will no longer be able offset as much of its interest costs against tax.

As a result, its taxable net profit is increased by $1.12 million to $1.52 million. With the company tax rate at 28 per cent, A Firm NZ Ltd will have an additional annual tax liability of $313,600.

15. Mum and Dad property investor

Amanda and Mike are a couple in their late 40s. They have two teenage children and a joint income of $120,000 a year – Mike earns $80,000 and Amanda, who works three days a week, earns $40,000. Several years ago they used equity in their own home to purchase an investment property. They still have a small mortgage on their own home and make repayments of $200 a week.

They purchased their rental property for $300,000 and make an annual profit of $2,700 ($51.92 a week) after costs of interest, repairs and maintenance, rates and annual depreciation of $3,000. The property is now worth about $600,000.

Under Budget 2010 tax changes, Amanda and Mike get a joint personal tax cut of $73.46 on their salaries. However they can no longer claim depreciation on the building on their rental property. As a result they must now pay tax on annual rental profits of $5,700. This increases the tax on their investment income by $12.36 a week. In addition they pay an extra $37.54 a week in GST. Overall they are $23.56 a week or $1,225.12 a year better off.

Amanda and Mike weekly income	Before	After
Regular income	$2307.69	$2307.69
Taxable investment income	$51.92	$109.62
Total taxable income	**$2359.61**	**$2417.31**
Income tax (regular income)	$512.31	$438.85
Income tax (investment income)	$15.32	$27.68
Disposable income	**$1889.68**	**$1950.78**
Change in disposable income due to tax changes	$61.10	
Extra GST	$37.54	
Change in net income	**$23.56**	
Annual change in net income	**$1225.12**	

16. Part-time property investor

Amanda is an Auckland professional who earns a salary of $120,000 a year and owns two investment properties purchased near the start of the recent property boom. Amanda makes an annual profit of $9640 a year ($185.38 a week) on her properties after costs of interest, repairs and maintenance, rates and annual depreciation of $6800.

Under Budget 2010 tax changes, Amanda gets a personal tax cut of $89.04. However she can no longer claim depreciation on buildings. As a result she must now pay tax on rental profits of $16,440. This increases the tax on her investment income by $33.98 a week. In addition she pays an extra $41.72 a week in GST. Overall she is just $13.34 a week or $693.68 a year better off.

Amanda weekly income	**Before**	**After**
Regular income	$2307.69	$2307.69
Taxable investment income	$185.38	$316.15
Total taxable income	**$2493.07**	**$2623.84**
Income tax (regular income)	$675.96	$586.92
Income tax (investment income)	$70.30	$104.28
Disposable income	**$1877.58**	**$1932.64**
Change in disposable income due to tax changes	$55.06	
Extra GST	$41.72	
Change in net income	**$13.34**	
Annual change in net income	**$693.68**	