

## Budget 2011 Announcements 19<sup>th</sup> May 2011



A record budget deficit of \$16.7 billion has been revealed today by Finance Minister, Bill English.

Unlike the 2010 Budget, there are fewer significant tax changes.

The good news is that the return to surplus is budgeted to occur a year earlier than expected, and we should be back in the black by the 2014/15 financial year. The Government aims to increase State sector efficiency achieving savings in the order of \$980m over the next three years.

Within the Budget, Student Loans and Working for Families (WFF) have been targeted to ensure only those most in need will be eligible. As was flagged prior to the Budget announcement, changes will be made to KiwiSaver, whereby the burden of contribution falls more heavily on the employer and employee; instead of the Government.

### **Below is a brief overview of the Budget 2011 announcements;**

#### **KiwiSaver**

- From 1 July 2012 the Government will contribute 50 cents for each dollar contributed by KiwiSaver members. This is the equivalent to \$10 per week.
- From 1 April 2012 all employer contributions to employee KiwiSaver accounts will be subject to Employee Superannuation Contribution Tax (ESCT) applied at the individual's marginal tax rate. This will therefore have a bigger impact on those on higher marginal tax rates i.e. those with higher incomes.
- From 1 April 2013 the minimum employee contribution rate will rise from 2% to 3% for all KiwiSaver members.
- From 1 April 2013 compulsory employer contributions will rise from 2% to 3%.
- The initial Government Kick-Start of \$1,000 remains unchanged.

#### **Working for Families (WFF)**

- The abatement threshold will reduce to \$35,000, down from \$36,827 and the abatement rate will increase to 25 cents up from 20 cents. These changes will gradually be introduced and ensure WFF is better placed to help those families most in need.



### Student Loans

- Student loan eligibility will be restricted for those with an overdue student loan repayment obligation of \$500 or more and who are in default for more than one year.
- Eligibility will also be restricted for those aged over 55 to tuition fees only.
- Part-time full-year students will not be able to borrow for course-related costs.
- The inflation adjustments to the repayment threshold will be suspended until 1 April 2015.
- The repayment holiday for overseas-based borrowers will be shortened from three years to one year. In addition, the overseas-based borrowers will need to apply for the repayment holiday and appoint a New Zealand-based contact person.

### ACC

- Future levies will be lower as a result of the cost savings within the ACC scheme.

### Taxation

The few tax-related measures in the Budget are mostly directed at tax compliance and tax system integrity. Proposals announced by the Minister of Revenue, the Hon Peter Dunne, comprise:

- an increase in the minimum level of non-deductible capital for banks under the inbound thin capitalisation rules (from 4% to 6%).
- an extension of the definition of income for WFF purposes to include more fringe benefits provided to employees.
- possible taxation of salary exchanged by employees for non-taxable, non-cash benefits
- a review of the tax treatment of assets which are used for partly business and partly private purposes, and
- alterations to the current option which allows farmers to switch between livestock valuation methods.

Public consultation documents would be issued on all but the first of these matters later this year.

Full details of the budget are available on the Policy Advice Division website <http://taxpolicy.ird.govt.nz/>

If you would like to discuss the budget further or have any questions, please contact Christine Henderson by email [chenderson@hwi.co.nz](mailto:chenderson@hwi.co.nz).