

2010
BUDGET

Budget 2010
Building the Recovery

Hon Bill English, Minister of Finance

20 May 2010

Our economic challenges

Recent economic track record

- Sluggish, unbalanced growth driven by debt and consumption, rather than savings and exports
- NZ's external liabilities jump to \$250b by 2014

Fiscal problems building

- We're spending more than we earn
- Net Crown debt rises to \$68b by 2015

Stronger, sustainable growth will deliver the incomes and opportunities hard-working Kiwis deserve

Budget 2010 - building the recovery

Focus on higher and sustainable growth

- Tilts economy towards savings and exports

Major tax reform package

- Helps families get ahead, keeps Kiwis in NZ
- Makes the tax system fairer, promotes growth

Improving fiscal outlook – but challenges remain

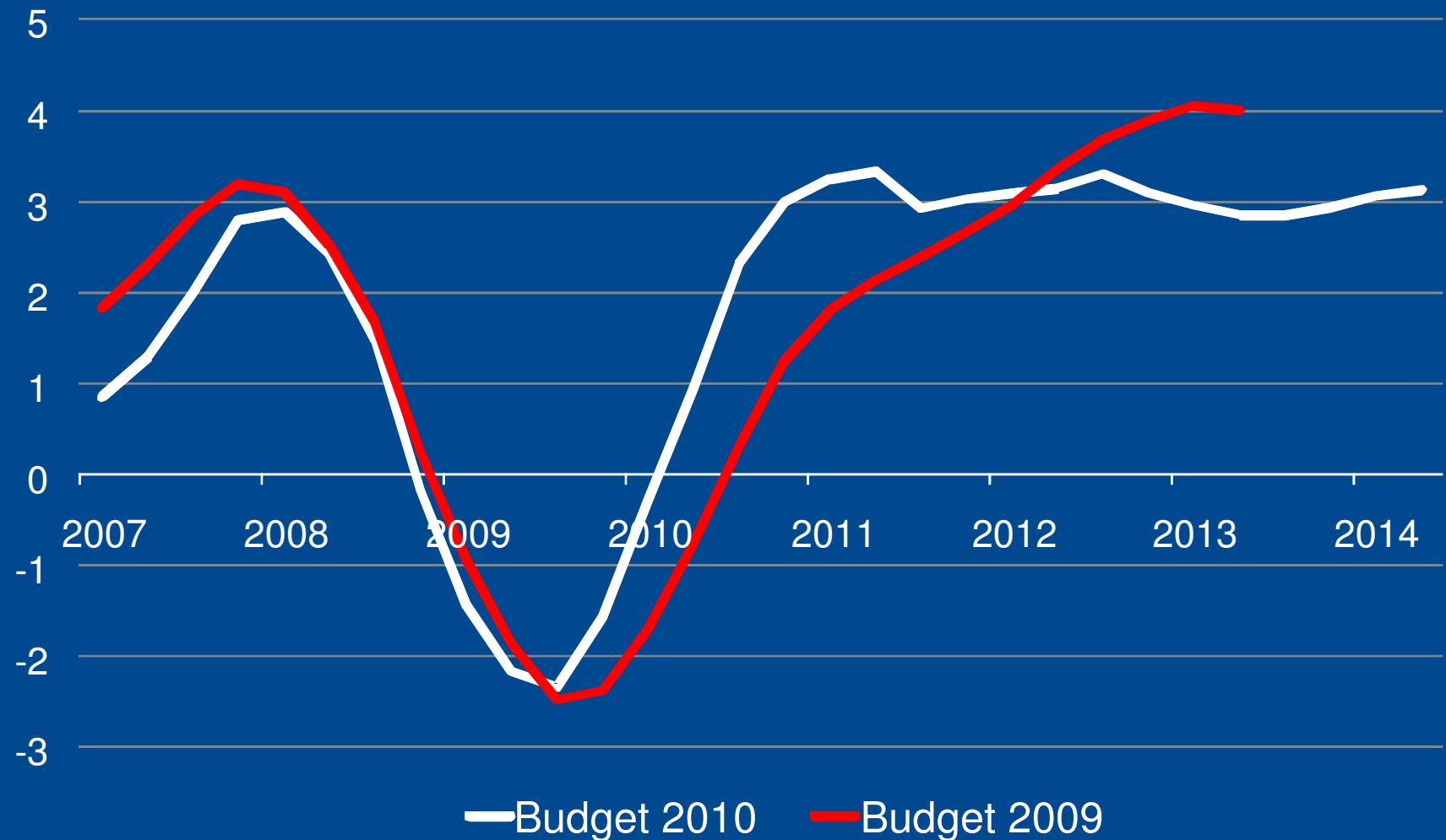
- Gets debt and deficits under control

Moving money to priority public services

- Record health, education spending; science

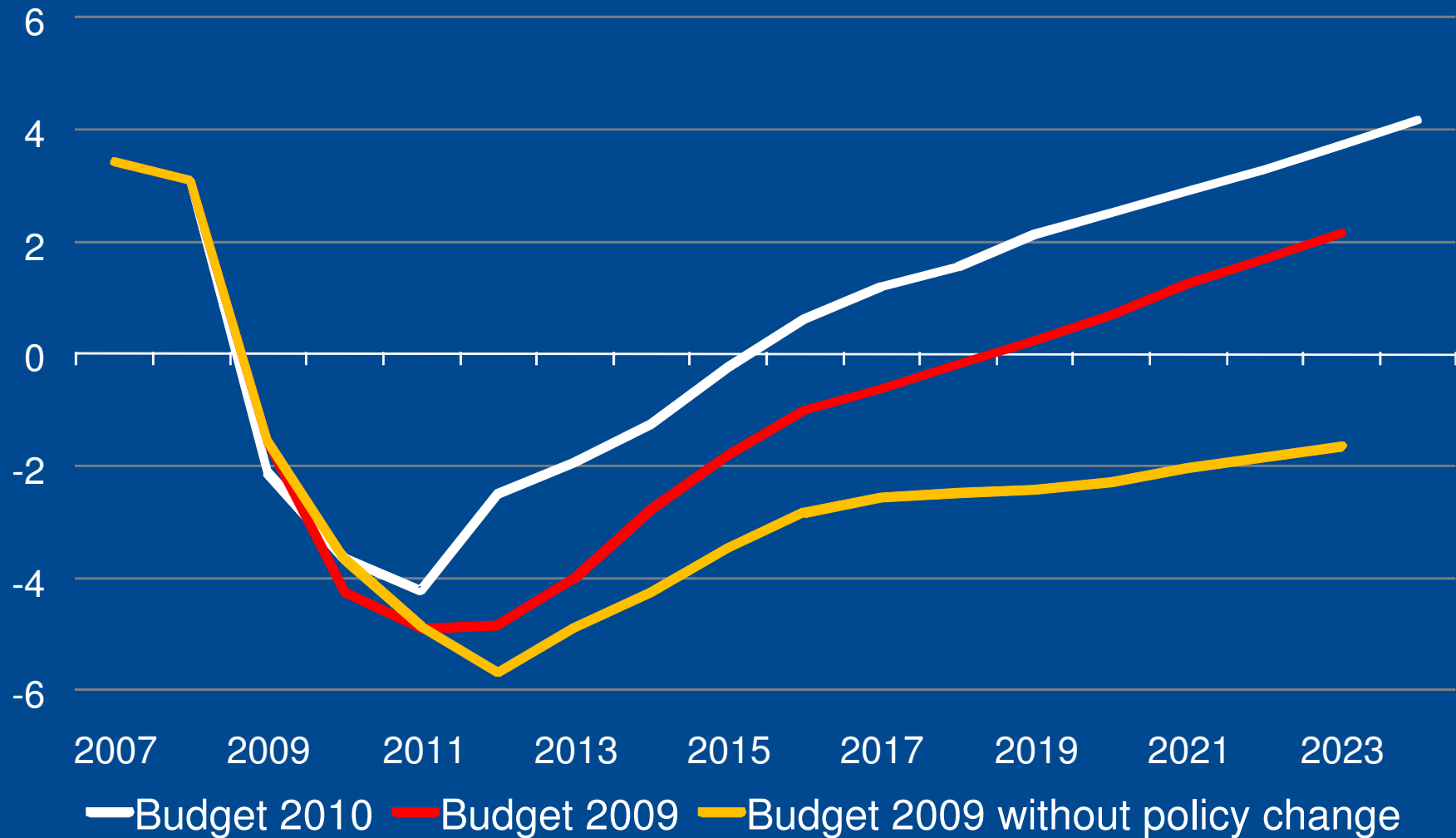
A stronger economic outlook ...

Real GDP growth %



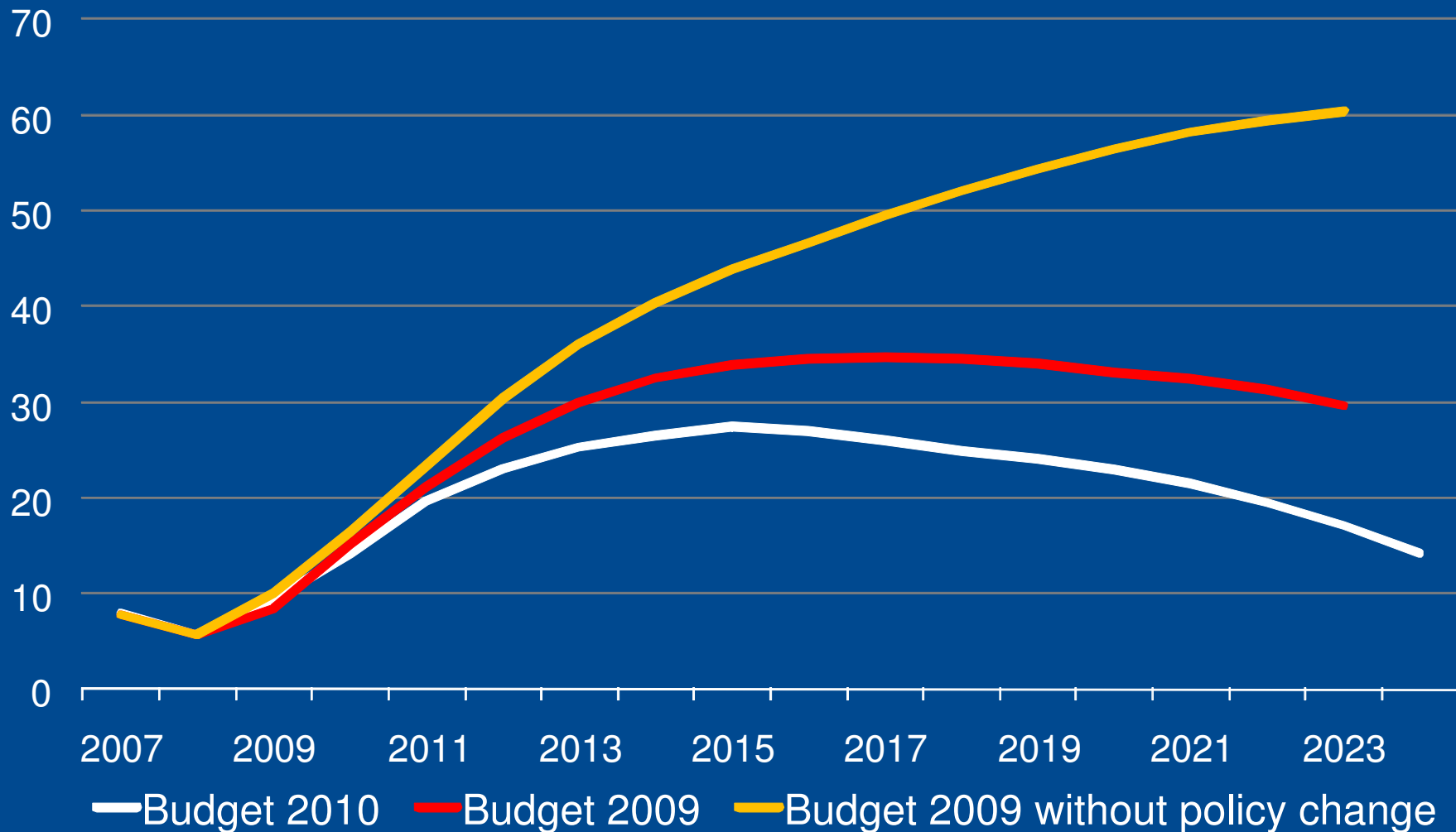
... means smaller Budget deficits ...

OBEGAL % of GDP



... and getting on top of debt

Net debt % of GDP



Budget 2010 – key initiatives

Extra funding over four years directed to priorities:

- \$2.1b for health - \$1.4b for DHBs
- \$1.4b for schools and ECE - 4% increase in school ops, \$107m for ECE and \$349m for school property
- \$321m for science and R&D - lifting total spending to \$750m a year
- \$1.8b of reprioritised money - allowing significant initiatives to proceed
- \$1.45b this year for infrastructure - including broadband, schools, housing and rail, plus \$1b for roads

Major tax reform

- Rewards effort and helps families get ahead
- Attracts and retains skilled people in New Zealand
- Encourages savings and productive investment
- Makes the tax system fairer

At all taxable income levels, tax cuts more than offset the GST rise

Tax package - the main changes

Personal income tax cuts

- Across-the-board rate cuts from 1 October
- New rates of 10.5%, 17.5%, 30% and 33%

Increase in GST

- New rate of 15% from 1 October

Protection for the most vulnerable

- Immediate lift in benefits, NZS, student allowances and WFF to offset GST increase

Tax package - the main changes

Business tax changes

- Company rate falls from 30% to 28%
- Tax rate for most savings vehicles reduces to 28%
- Removing 20% depreciation loading and depreciation deductions on buildings with useful life of more than 50 years
- Reducing thin cap threshold to 60%
- LAQC and QC rules tightened

Closing loopholes

Measures to improve integrity

- Tightening income definitions
- Aligning trust and top personal tax rates
- Preventing GST “Phoenix” schemes
- Improving IRD enforcement of current rules

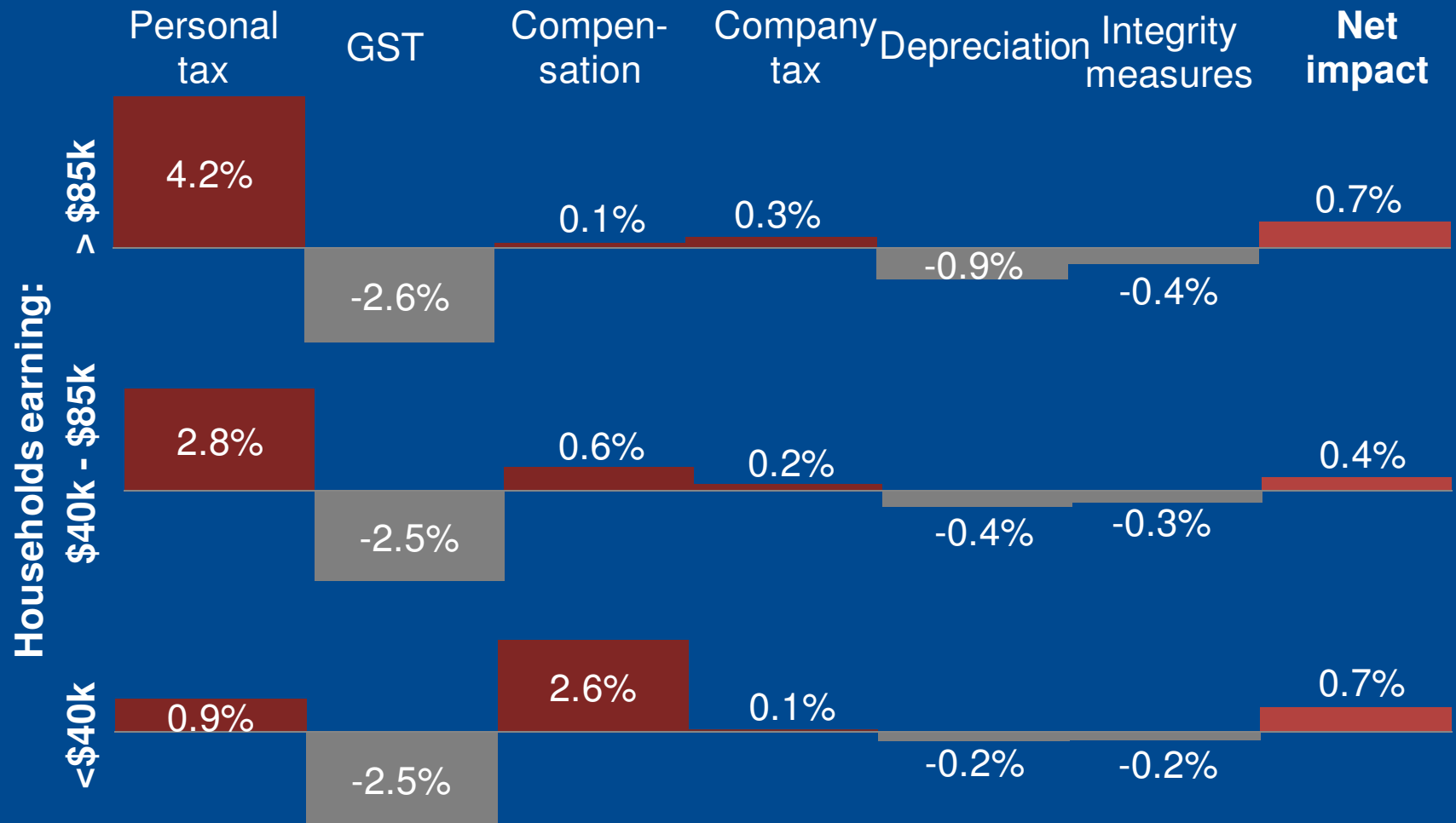
Making the tax system fairer

Two remarkable facts

- Two-thirds of the cost of income tax cuts goes to reducing the bottom two rates
- 73% of income earners will have a top tax rate of 17.5% or less

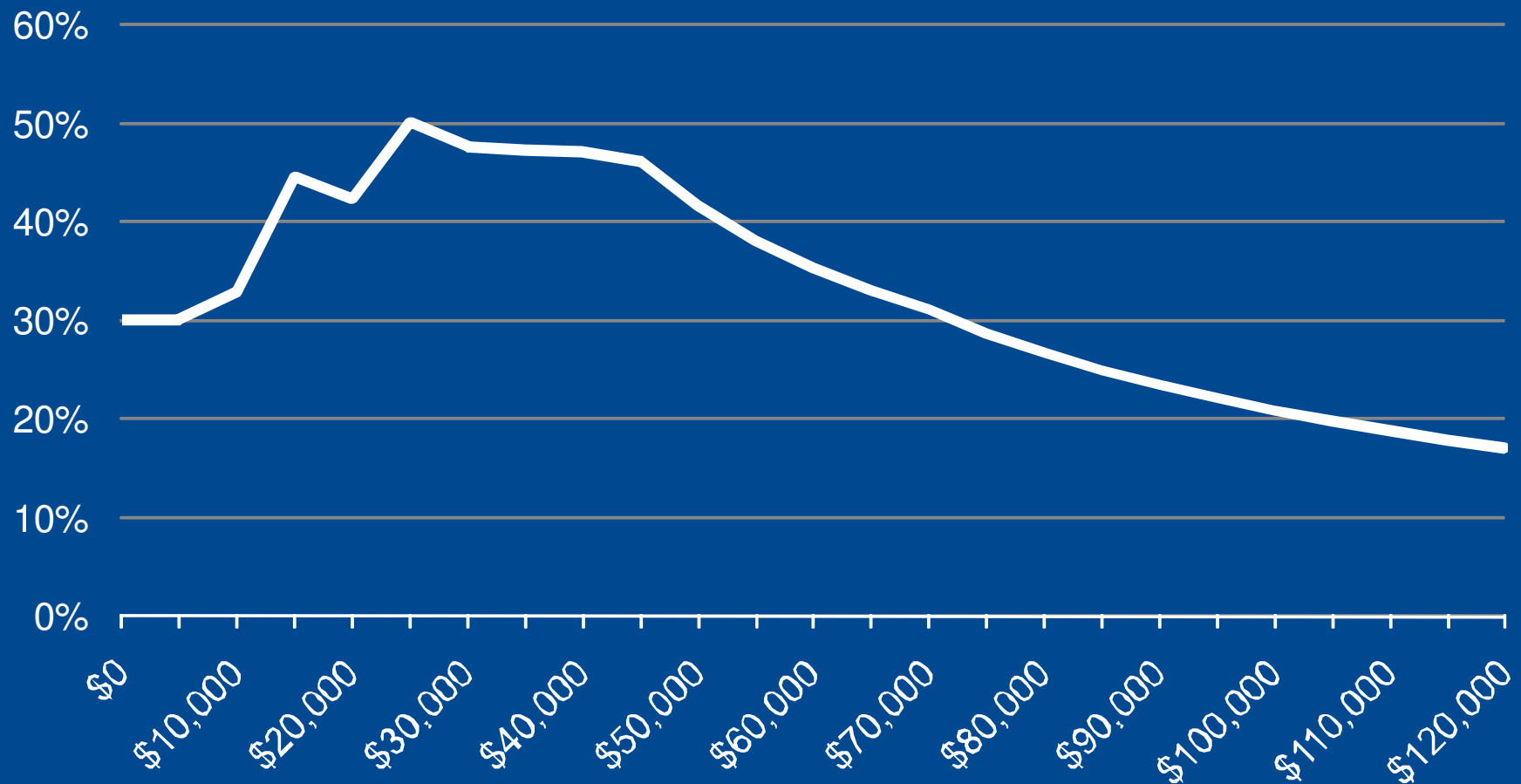
Property investors and foreigners bear much of the cost of base broadening measures

Gains across all income levels



Benefits to low, middle earners

1996-2010 tax changes: reduction in tax paid
(excludes Working for Families)



Average household - impact

Scenario

- Couple earning \$50k and \$26k
- Two children under 13; receiving WFF
- \$300 a week in mortgage repayments

Impacts

- Tax cut of about \$46 a week
- Extra GST of about \$21 a week
- Better off by about \$25 a week (\$1300 a year)

Retired couple - impact

Scenario

- Retired couple receiving only NZ Super
- Own their own home

Impacts

- Tax cut of \$11.52 a week
- Increase in NZ Super of \$10.12 a week
- Extra GST of about \$11 a week
- Better off by nearly \$11 a week (\$570 a year)

Mum and dad property investor

Scenario

- Couple earning \$80k and \$40k with two teenage children
- \$200 a week mortgage on their own home
- Rental property with \$3k a year of depreciation

Impacts

- Income tax cut of about \$73 a week; depreciation change increases tax by about \$12 a week
- Extra GST of about \$38 a week
- Better off by about \$23 a week (\$1200 a year)

Recapping - building the recovery

- **Rebalances the tax system for growth** – encourages more money into savings and investment; less into property and debt
- **Gives tax cuts across the board** – to keep more skilled Kiwis in NZ, help families get ahead
- **Keeps debt under control** – puts more of the money we have into health, education
- **Invests in the future** – so NZ grows faster – science, broadband, tourism, resources

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