

No one should mourn death of 38% tax rate

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Tax experts are welcoming the Budget tax package, hailing it "bold", "radical" and "smart" for returning New Zealand to simpler, more rational tax rules that should encourage investment in productive assets rather than housing.

"The property sector will understandably not welcome some aspects of this Budget," KPMG chief executive Jan Dawson says. The surprise cut to 28% in the company tax rate from next April would help offset any negatives among a raft of changes removing or tightening property investment and other sources of tax deductibility.

The Budget was "the most radical in years", said Deloitte chief executive Murray Jack, and represented "a big bet on the delivery of the required impetus for the government's growth strategy."

The New Zealand Institute of Chartered Accountants pointed out that it was history repeating. The corporate tax rate was 28% in 1989, while the top tax rate only rose beyond 33% in 2001.

"Ever since then, the tax system has fallen into disarray as governments have tried to apply band-aid arrangements to avoid the 39% rate," said NZICA's Craig Macalister. "This is a welcome return to a simpler tax system, and it removes some of the incentives to structure for tax purposes rather than for commercial purposes."

Chapman Tripp tax partner Casey Plunket said "no one should mourn the passing of the 38% top personal tax rate."

"It was always a fraud, the cost of which was not borne by the wealthy but by those who earned ... income which they could not shelter in companies or trusts," Plunket said. "People with substantial assets, the real wealthy, were almost completely unaffected by it."

By stealing a march on Australia and going to a 28% corporate tax rate three years earlier than across the Tasman, the government might not convince Australian firms to relocate here, but was giving the signal of being "serious about trying to close the growth gap between the two economies."

"The Budget represents the biggest overhaul of the tax system since 1987, and has the capacity to - finally - wean New Zealanders off their propensity to over-invest in property."

KPMG expressed concern about the short timetable for the change to GST at 15%, saying some businesses would be scrambling to implement by October 1.

Macalister said the absence of capital gains tax would continue to distort investment in New Zealand, but accepted the depreciation removal on buildings as "a more principled approach than ring-fencing rental property losses and introducing bright-line tests to tax property purchased and sold within a specified time."

Both such measures had been feared by property investors and gained little traction with officials or ministers because of their complexity and likelihood of encouraging new tax avoidance structures.

The New Zealand Property Council wasn't happy with the investment property tax changes, but called it a "bold Budget" that was "good for New Zealand, at the property sector's expense."