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Newsletter – Budget 2016

Finance Minister Bill English revealed no tax surprises in the 2016 Budget Speech. In this era of consultation with all affected stakeholders, perhaps that is not surprising. Unlike the Australian Budget of three weeks ago, there are no shock “reveals” of new taxes announced for multinational corporates or dramatic cuts to the corporate tax rate.

A reduction in income tax is cautiously foreshadowed over the next few years "if economic and fiscal conditions allow".

The key tax measures in Budget 2016 were revealed by the Prime Minister John Key last month in a pre-Budget announcement. Presented as a “business-friendly tax package”, the announcement included the following:

- Reform of the provisional tax regime — removal of use of money interest (UOMI) for the first two provisional tax instalments, extending the safe harbour threshold from \$50,000 to \$60,000 and the introduction of a new "accounting income method" (AIM) that will allow taxpayers with a turnover of less than \$5 million to use their accounts to calculate and pay provisional tax monthly or two-monthly.
- Overhaul of the rules for schedular withholding payments — giving contractors the option of choosing their own withholding rate (while having a minimum 10% rate for resident contractors and 15% for non-resident contractors), bringing labour-hire firms within the net for withholding payments, and bringing in a voluntary option for contractors not currently covered by the schedular withholding rules.
- Removal of late payment penalty — the current 1% monthly incremental late payment penalty will be phased out in a staggered approach.
- Greater transparency — tax debt in serious cases will be disclosed to credit reporting agencies, and Inland Revenue will share information with the Registrar of Companies in cases where a serious offence has been (or will be) committed.

Budget 2016 - spending breakdown



KEY FIGURES

1. \$2.2 billion more in health, including \$1.6 billion for district health boards over 4 years.
2. \$1.44 billion more in education, including \$882.5m for classrooms and nine new schools.
3. \$39 million to roll out a national bowel screening programme.
4. Net debt forecast to peak at 25.6% of GDP next year and drop to 19.3% by 2020/21
5. Forecast surplus of \$668 million in 2015/16, rising to \$5 billion by 2019.
6. Total new spending of \$1.6 billion a year, plus an extra \$480 million freed up from cuts or underspends elsewhere.
7. Tobacco tax to increase by 10 per cent a year every year - a packet of cigarettes will rise from \$20 to \$30 by 2020. Forecast to raise \$425m over 4 years.
8. Treasury forecasts economic growth of 2.8% over next five years and unemployment to drop below 5% in 2018. Inflation forecast to stay lower than expected for longer, rising to 2% in 2017.

For any queries, feel free to contact us on 03 307 6455.