



Lower Company Tax Rate – Myth or Reality

The tax cuts mentioned in last night's budget are only a reality for those companies who do not pay out their profits, or those who have shareholders who are "separate" from the company. These will mainly be large companies with multiple shareholders and/or publicly listed companies.

But for the majority of companies this is not the case and these tax cuts are really just a myth.

Why? - because even though the new company tax rate will be 30%, when you want to get your money out, you pay tax at your top marginal tax rate. That is, for many of you either 33% or 39%, meaning there is no tax savings at all!

Even if you leave the money in the company and try to get it out some other way (eg benefits) then usually FBT will apply, and unless the FBT rate drops this will also mean you get no tax saving.

So to gain the benefit of the lower tax rates you will have to leave the profits/wealth in the company, which from an asset protection point of view is not desirable.

If you would like a copy of the calculations showing the above please contact us.

I agree the tax rate will be beneficial for those companies who are not concerned with what tax their shareholders ultimately pay on any profit distributions eg publicly listed companies.

However this raises another issue of how will companies, rather than individuals, spending the same money help take the pressure off the economy, interest and exchange rates?

Only the Government can believe that companies will only spend their money on productive items - which is as flawed as their belief that property owners only use trust to avoid paying tax.

Maybe some time in the real business world would benefit our decision makers!!

But wait there's more

- The IRD has been given an extra \$14.6 million to target property owners.
- The compliance issues/ costs surrounding these tax cuts are still to be finalised as many other tax laws/ rates will need to be amended to ensure consistency.
- You may need to pay out your current earning before the end of the 2009/10 income year otherwise your imputation credits will reduce in value from 33% to 30%. The timing of this reduction appears to coincide with the drop in personal tax rates so any advantage of delaying dividends etc to get the lower personal tax rates may be lost.

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