

Budget provides even greater reward for KiwiSaver members

Whilst cuts to personal income tax rates have taken the limelight in this year's Budget, KiwiSaver members will also be better off thanks to the Government's desire to see New Zealanders invest and save rather than spend.

The PIE tax rates are being reduced from 1 October 2010 to align with the changes made to personal tax rates. The top PIE tax rate reduces from 30% to 28%, the 12.5% and 21% PIE rates will drop to the new 10% and 17.5% personal rates.

The thresholds at which the PIE rates kick in have not been changed. The table below summarises the changes:

If your taxable income was...	And your taxable income plus your PIE income/loss was....	In the 2 income years before the relevant tax year for...	Your PIR currently is	Your PIR from 1 Oct 2010 will be
\$0 - \$14,000	\$0 - \$48,000	Either year	12.5%	10.5%
\$0 - \$14,000	\$48,001 - \$70,000	Either year	21%	17.5%
\$14,001 - \$48,000	\$0 - \$70,000	Either year	21%	17.5%
\$48,001 or more	Any	Each year	30%	28%
Any	\$70,001 or more	Each year	30%	28%

What does this mean in dollars and cents?

The Government has calculated* (Ref: <http://www.taxguide.govt.nz/savings-tax-cuts.html>) that as a result of the lower tax rate on PIEs, a worker earning \$48,000 a year who joins KiwiSaver at age 25 will be over \$11,700 better off upon reaching the retirement age of 65. This is due solely to reduced tax paid on interest.

That's a great result and provides even greater reward for people to participate in KiwiSaver.

What do you have to do?

Nothing. As the tax thresholds are not changing we will simply alter the PIE tax rate on your account on 1 October 2010.

*Assumptions:

A pre-tax rate of return of 5% (inflation adjusted), 2% employee and 2% employer contributions, annual member tax credit of \$1,040 and no wage growth.