

Broadbase International Ltd Newsletter – November 2010

The countdown to Christmas has begun in earnest, with final postal dates for the UK looming and the children already well into their fourth and final term of school before the eagerly anticipated 6-week summer break.

This month we get an expert view on what impact the abolition of gift duty in New Zealand may have on migrants with trusts, review the impact of the proposed UK spending cuts on pensions, and take a look at the latest KiwiSaver performance survey – significantly containing a revealing 3 years of data.

UK Spending Review

The UK Coalition government has delivered its promised announcement of [public sector spending cuts](#). Of most interest to Brits in New Zealand is the acceleration of the increase in the age of entitlement for state retirement pensions. Plans were already in place to gradually increase the UK state pension age from 60 to 65 for women (applying to women turning 60 from April this year) and then from 65 to 68 for everyone by 2046.

The new proposals would affect people born between April 1953 and April 1960, with the age of entitlement reaching 66 in 2020, six years earlier than previously planned. The government has indicated that further changes will be considered. For more detailed information on the proposed changes check the [direct.gov.uk website](#). You'll also find plenty of information on whether you'll be eligible for a New Zealand state pension and getting paid your UK state pension in the [retirement planning section](#) of our website.

Latest KiwiSaver Results

The Morningstar KiwiSaver Performance Survey for the three years to September 2010 quarter has been released, and is available from the [Morningstar website](#). The figures show that more New Zealanders have invested with KiwiSaver than initially projected when the scheme was implemented, but most KiwiSaver members are still invested in the six default funds. While the default funds have mainly been good, solid performers, they are certainly not the only option – or even the most appropriate option – for every KiwiSaver investor, and taking a more active interest in where your retirement savings are invested may be a profitable exercise.

With contributions from you, your employer and the Government, even a modest monthly KiwiSaver contribution to an appropriate fund can add up over the years to a significant pension pot. [Click here for more information about KiwiSaver](#) (and to check your eligibility if you're from the UK). If you would like to get started with KiwiSaver or check whether your current KiwiSaver scheme is the right one for you, [contact Jeremy](#) to get a copy of our KiwiSaver investor profile.

Gift Duty to be Abolished

The New Zealand government has announced their intention to abolish gift duty from October 2011. Gift duty is levied on assets over \$27,000 being transferred or "gifted" (usually to a trust or relative). It currently costs around \$70 million per year in compliance but only netted \$1.6 million in tax income last year.

We asked our Trusts expert, Henry Brandts-Giesen from Helmores Barristers and Solicitors, what impact the abolition of gift duty will have on migrants in New Zealand, particularly those with trusts:

"The Government has announced that it will introduce legislation this month that will include the repeal of gift duty. The announcement follows a review by government to assess the impact on creditor protection and social assistance targeting. The review found that gift duty offered minimal protection for these areas and did not justify the \$70 million annual compliance costs involved. Once enacted, the abolition of gift duty will be effective from 1 October 2011.

Gift duty in New Zealand is an anachronism from the days when estate (or inheritance) tax was levied. Estate tax was abolished in 1992 but gift duty remained. Under the gift duty regime a person can gift \$27,000 per year (or \$54,000 between a husband and wife) without incurring any duties. This meant that people establishing family trusts to own the family home or other family wealth would typically "sell" the assets to the trust and receive a debt back. They would then forgive the debt gradually over time so as to not trigger a gift duty liability.

This process, known as a "gifting programme", is very inefficient and costly for both private individuals, lawyers and the IRD and raised very little revenue. Furthermore, it often defeated the very purpose for which many trusts were established in the first place because, at least in the short to medium term, it left the person establishing the trust with a large asset still on his or her balance sheet in the form of the debt owed by the

trust.

Common sense has prevailed and gift duty has now been abolished meaning that when a new trust is established assets can be transferred into the trust virtually immediately. There are "claw back" provisions in insolvency and property legislation intended to prevent transfers made to defeat existing or anticipated creditors.

This may make the establishment of a trust more attractive for NZ residents. Having said that there are currently no major tax benefits in doing so and people should always talk through the options with a lawyer who specialises in asset planning. This is particularly so for new migrants to NZ from the UK and the US. HMRC will tax the value or transfers to trusts above the nil rate band (currently GBP 325,000) at a rate 20% where the transferor is "deemed domiciled" in the UK (even if they are no longer resident there for income tax purposes). Similarly the IRS taxes US citizens on their worldwide income regardless of where they live and the establishment of a trust in NZ by a US citizen living in NZ will have serious tax consequences and IRS reporting requirements."

[Check our website](#) for more information on New Zealand trusts, pre-migration trusts and contact details for Henry Brandts-Giesen.

Important Dates

Final posting dates for delivery of Christmas cards and parcels back to the UK are fast approaching, with the Economy cut-off date on the 22nd of November and the Airmail cut-off date on the 29th of November. For more information check the [NZ Post website](#).

Canterbury Anniversary Day, Friday 12th November. Every region in New Zealand has a local public holiday at some point during the year. In Christchurch it is celebrated in conjunction with the local A&P (agricultural) show. Check our UK website for other [New Zealand regional and national public holidays and school term dates](#).

Until Next Month...

Wishing you well until we are next in touch. Please feel free to contact us anytime if you have any questions about the financial side of life in New Zealand.

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