20 May 2010

Fact sheet – Savings tax changes

What is changing?

- From 1 October 2010, the top tax rate for most portfolio investment entities (PIEs), including KiwiSaver accounts, will be reduced from 30 per cent to 28 per cent, while the other PIE rates drop to align with the new personal tax rates.
- The tax rate for savings vehicles like unit trusts and widely-held superannuation funds will also be reduced from 30 per cent to 28 per cent from the 2011/12 income year.
- Personal income tax rates, which apply to savings held directly, will be reduced across the board.
- Resident withholding tax (RWT) rates applying to interest earned through a bank account will be reduced so they align with the new personal tax rates from 1 October 2010.
- The rebalancing of taxation away from income taxes and towards GST will encourage savings rather than consumption.

Why?

- Lower tax rates on savings will encourage people to save more.

Key facts

- The changes to the top rate for PIEs and savings vehicles will cost $15 million in 2010/11, rising to $60 million a year by 2013/14.
- Banks and other financial institutions will automatically reduce the current RWT rate or PIE rate to the new rate when the changes take effect.

The long-term effect of tax cuts on savings

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.

If the same worker also chose to put all of their personal tax cut – after allowing for the effects of extra spending from increased GST - into a term deposit they would be $78,000 better off upon retirement.