Financial Freedom

QUARTER 2 2012 NEWSLETTER

OUR SERVICES

- **Full financial planning**
- **Retirement planning**
- **Personal insurances**
- **Investments**
- **Employer group insurance schemes**
- **Health insurance**
- **UK pension transfers**
- **Business protection insurance**

INSIDE THIS ISSUE:

KiwiSaver - What does it mean for you?

From 1st of July last year, which is the start of our KiwiSaver year, the Government made a number of changes to KiwiSaver and, these changes affected every working New Zealander. To recap, there were four main changes:

1. From 1 April 2012 - Employer contributions to KiwiSaver will no longer be exempt from Employer Superannuation Contributions Tax (ESCT). Instead, they will be taxed at an employee's marginal tax rate. E.g. if your employer pays 2% of your salary into your KiwiSaver and the employee marginal rate of tax is 30%, then 1.4% will now be contributed instead. This means that you'll see less go into your KiwiSaver from your employer during the 2012 financial year.
2. For the year to 30 June 2012 and beyond - The Member Tax Credit rate halved from $1 to 50c for every $1 that members contribute. Therefore, the maximum level of the Member Tax Credit was halved from $1,042.86 to $521.43 per annum. This means that instead of matching your first thousand dollars or so of contribution each year, the Government will only contribute just over $500 for your first thousand.
3. From 1 April 2013 - The minimum employee contribution will rise from 2% to 3%.
4. From 1 April 2013 - Compulsory employer contributions will also rise from 2% to 3%.

What do these changes mean to you?

Briefly, the Government is now contributing less to your KiwiSaver, by removing the ESCT exemption and halving the Member Tax Credit rate.

From April 2013, both you and your employer will have to pay more into your KiwiSaver - a total of 6% of your salary, evenly split. The additional 1% in contributions by both employers and employees may not make much difference to those on medium or high salaries, but people on basic wages will probably feel the pinch in their pay packets.

For the majority of people, these changes will mean an increase to the total amount being paid into their KiwiSaver accounts, with the higher minimum employee and employer contribution more than offsetting the reduction in Member Tax Credits and removal of ESCT exemption.

But for those people who previously chose to make employee contributions of 4% or 8% of salary, and whose employers are contributing at 4%, the changes will see a reduction in contributions credited, given the impact of the ESCT exemption removal and Member Tax Credit changes.

If you are an employer, the increase in minimum compulsory employer contributions will place pressure on your salary budget - although you do have some breathing space before this begins on 1 April 2013.

What should you do now?

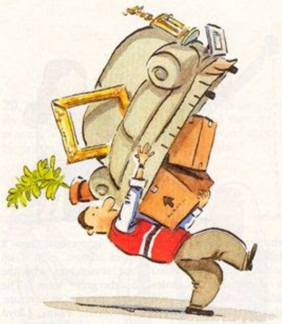
If your head is in a bit of a spin with all these various changes - relax! The reality is that at 3% of your earned income, we are not talking big numbers. This is exactly why, like many financial advisers, we have always advocated KiwiSaver as only part of an individual's overall retirement plan, not the whole solution. Even the 6% level of total KiwiSaver contributions - when we combine what employers and employees invest - over a full working life will not be nearly enough to secure what most people would regard as a comfortable retirement. Just to provide some context, in Australia there is a 9% compulsory employer contribution which many are advocating be raised to 12%, given concerns about inadequacy.

The truth is that KiwiSaver does not provide the whole solution. In the past it was rather more attractive from a tax perspective. Now, the combined 6% contributions provide somewhat more scope for long term wealth creation. But they are still not nearly enough.

Most people therefore need to do two things. First, ensure that the money contributed through KiwiSaver is properly invested to maximise wealth creation over the long term.

Continued on back page

G3 Financial Freedom Editorial from the desk of Cathy Fletcher (G3 Office Manager)



We have had a very busy couple of months here at G3. We took the opportunity to move offices in May and now really enjoy our new place on **Level 1, 20 Wharf Street, Tauranga.** It gives us more meeting rooms and we love being next to cafés providing wonderful coffee! Do feel free to pop in to say 'hi' if you're passing by.

Tracey has been busy travelling to Hamilton and Gisborne seeing clients and developing business connections. It seems our clients are coming from further afield now that our business referral partners around the country are seeing the value and worth our services are providing them. Tracey's having fun and frolics with a new dog - that makes 3 now!

Jane continues to be busy seeing clients here in Tauranga, writing plans and commuting from her home in Rotorua. She looked forward to the shortest day as it's now down hill to summer with lighter nights and mornings hereon. She has now 'got rid of' one daughter to the UK and says 'yay!' only 3 more to go!

Charlene is also carrying on with seeing new clients here in the Bay and travelling to Auckland regularly for business meetings. She also keeps herself busy looking after two Scouting groups - Omokoroa and Te Puna. She says this is her balance in life and her opportunity to help youth develop outdoor and leadership skills (we think she just likes playing 'tomboy'!)

Never regret. If it's good it's wonderful. If it's bad it's experience

Victoria Holt

More Travel - Is This Affordable In Retirement?

I've been very lucky to have just come back from a two week trip to France. Yes it was luck really because my sister shouted me. I thought I might just share with you some of the things I have learned from this experience.

Packing - rolling clothing is a revelation in how much space can be saved however, of course, it still weighs the same. My tip there is to only take a travel bag that will hold no more than the 23kilos allowed free and don't fill it up to go, after all girls there is shopping to be done!

Flying - the new Airbus A380 is fabulous, quieter and more roomy with bigger personal movie screens. Luckily I had not read the article about the wings having cracks before flying in it , though apparently they are in no danger of falling off. Dubai airport is so big you can get lost in it.

Always take your onward boarding pass off the plane if you are on a stopover otherwise "how are you going to get from Dubai to Paris."

France in the springtime - May can be very cold and wet in the north, in fact freezing. Glad I took a couple of merinos. Paris was hot, fine and even sunburn material.

Doing a tour of the World War One battlefields in the Somme and Ypres was heart - rending. I was so cold I could not for the life of me understand how those unfortunate men kept going whilst suffering days on end up to their knees in mud, wet and cold in trenches and under fire. I know it was battle conditions and so they just got on with it but my heart went out to them. A tour guide is a must to understand the history and to know what one is actually looking at. Olivier really knew his stuff and spoke good English. Best of all, he did the tour from an ANZAC perspective for us.

The French people were very amused that I liked to drink hot water and not coffee. French breads are everything that we had hoped for and more. It is okay that we didn't dunk our croissants in our coffee.

The French people were extremely helpful and friendly. Even though my sister is fluent in French we were often spoken to in English in the shops before she even had a chance to practice and show off her French skills. New Zealanders are well liked and just mention rugby to the men and well, you're a hero. We would have been even more of a hero had we known the names of any of the great French players too!

You can walk to many of the magnificent historical places in Paris from the Latin Quarter but in the heat, carrying water bottles is a must. Walking means that you get to see all the shopping as you go and the hidden treasures down the little alleys and round the corners. Catching a taxi back to the apartment at the end of the day was a good idea.

Renting an apartment was ingenious of my sister. It felt like we were Parisian's and not tourists.

Booking taxis for a night out was much easier to do on the internet than by an automated phone system which caused frustration and stress.

Playing cards while sipping French wine was loads of fun and entertaining especially for the day we stayed in with one of us having a badly sprained foot.

Visiting Paris just makes one want to go back again. There is a magic about that city.

Note to self - Must save more for retirement! Must get one of the advisers here to do some projections for me so I know how much I will need to save.

Contributed by Cathy (Office Manager)

We can help with your retirement planning to include money for regular travel .

ADVISER USE ONLY

Key Financial Data 2012

(all data in this publication is current as at 1 April 2012 and is subject to change).

Provisional Tax Due Dates

Balance date (BD)	Not GST registered	GST registered			
		Standard / estimation method		Ratio method	
		1 or 2-mthly	6-mthly	1 or 2-mthly	6-mthly
31 March	28-Aug 15-Jan 7-May	28-Aug 15-Jan 7-May	28-Oct 7-May	28-Jun 28-Aug 28-Oct 15-Jan 28-Feb 7-May	Option not available
Not 31 March	28th day of the 5th, 9th, 13th month after BD	28th day of the 5th, 9th, 13th month after BD	28th day of the 7th, 13th month after BD	28th day of the 3rd, 5th, 7th, 9th, 11th, 13th month after BD	Option not available

1. Companies: Standard option of calculating provisional tax for the 2012 year is, 2011 RIT (no adjustments) or 2010 RIT + 5%. For 2013 provisional tax, 2012 RIT + 5%, or 2011 RIT + 5%.
2. Estimation method: it is the fair and reasonable estimate of the 2012 residual income tax.
3. GST ratio method: Applies to GST registered taxpayers whose previous year's residual income tax is between $2,500 and $150,000. This option calculates provisional tax by reference to GST taxable supplies in the relevant provisional tax instalment period.
4. Refer to http://www.ird.govt.nz/changes/income-tax/businesses/prov-tax/ for further information.

NZ Superannuation and Veterans Pension Rates*

Category *Check eligibility criteria		Weekly rate (net)	Weekly rate (net)	Weekly rate (net)	Weekly rate (net)
Effective from 1 April 2012		"M" tax code	"S" tax code	"SH" tax code	"ST" tax code
Single, living alone		$348.92	$330.07	$280.07	$268.67
Single, sharing		$322.08	$303.23	$257.35	$246.34
Married person or partner in a civil union or de facto relationship		$268.40	$249.55	$211.80	$202.74
Married, civil union, de facto: both qualify	Total	$536.80	$499.10	$423.60	$405.48
	Each	$268.40	$249.55	$211.80	$202.74
Married, civil union, de facto: non-qualified partner including on or after 1 Oct 1991	Total	$510.18	$472.48	$400.98	$383.82
	Each	$255.09	$236.24	$200.49	$191.91
Married: non-qualified partner incl. before 1 Oct 1991	Total	$536.80	$499.10	$423.60	$405.48
	Each	$268.40	$249.55	$211.80	$202.74
Partner in rest home, with non-qualified partner		$256.19	$237.34	$201.46	$192.85
Hospital rate (always taxed at the "M" rate)		$42.38	$42.38	$42.38	$42.38

Redundancy tax credit

- A tax credit of 6% (up to $3,600) may be claimed for redundancy payments paid between 1 December 2006 and 1 October 2011.

Use of money interest (UOMI)

Generally paid by IRD on overpayments of tax and charged by IRD on underpayments of tax. UOMI rates from 08 May 2012;

- 8.40% on underpayments of tax (deductible)
- 1.75% on overpayments of tax (assessable)

Depreciation

- Additional depreciation loading of 20% on new assets has been removed for assets acquired from 21 May 2010.
- From 2011/2012 income year no depreciation can be claimed on buildings with a useful economic life of 50 years or more.

Budget 2011 changes to ESCT

- The option to pay ESCT at a flat rate of 33 cents in the dollar has been removed. From 1 April 2012 instead, the rate applied will be based on the individual's total income and contributions.
- The current 2% minimum employer KiwiSaver contribution is now a gross rate as the contribution is now subject to tax. The net rate will vary between 1.34% and 1.79% depending on the employee's tax rate. These rates will apply for one year until the new 3% minimum employer contribution is expected to apply.

ESCT rate for contributions from 1 October 2010

Income levels	Rate of tax
$0 - $16,800	10.5%
$16,801 - $57,600	17.5%
$57,601 - $84,000	30%
$84,001 and over	33%

OnePath a company of ANZ

Above you will find a table of financial data current, as at 1 April 2012. We hope you will find this useful.

Key Financial Data for 2012 reproduced with the permission of OnePath NZ Ltd.

UK Pension Transfers - An Update

From Jane's desk

The UK Pension transfer market has undergone a significant shake-up since April this year.

Her Majesty's Revenue & Customs in the UK (HMRC) has acted to curb what it saw as unacceptable practice, where members were able to access their funds in a way that was not in line with UK principles. Largely this relates to those who have accessed their pension funds before age 55 (previously age 50).

HMRC have introduced new rules whereby to maintain its status as a Qualified Recognised Overseas Pension Scheme (QROP) the scheme is required to report back any withdrawals made from the funds within ten years from the time of the transfer. It has also introduced rules around how funds are accessed. There have always been UK tax charges applicable to pension transfers where the QROP rules were not abided by, which have not changed.

These changes have seen the QROPS market in New Zealand contract considerably as schemes alter their products to suit the new requirements. Further changes are expected to be announced by HMRC in the Finance Bill 2013.

In the UK, too, rules around income drawdowns have also changed in the last twelve months and for those choosing not to take benefits in the UK before age 75, a 55% special tax charge could arise upon death if a surviving spouse wishes to have a lump sum payout.

We have always been advocates of full retirement planning advice when considering transferring a UK pension to New Zealand and the latest changes highlight the ongoing need for specialist advice.

The trouble with not having a goal is that you can spend your life running up and down the field and never score.

Bill Copeland

KiwiSaver - What does it mean for you? *Continued from front page*

Secondly, speak to a financial adviser about a complementary investment strategy to ensure that, when you do wish to retire, the combined KiwiSaver and other investment incomes enable you to enjoy your golden years in comfort.

Finally, for those who were 60 years of age when they joined KiwiSaver in 2007, then the 1st of July this year, spells the first opportunity for them to be able to withdraw their KiwiSaver funds, having been invested for the minimum of 5 years. So, if you're one of these 17,000 individuals, do consider taking independent financial advice as to what you should now do with these funds. You may benefit from retirement planning guidance incorporating the money you've built up in your KiwiSaver 'pot'.

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Goals + Guidance = Growth

G3 Financial Freedom Ltd - We Make Every Day Count

We are the financial advice company that can help you create the financial future you desire with peace of mind, security and confidence. We operate under the rules of the Financial Markets Authority and abide by the Financial Advisers Act 2008. We are voluntary members of the New Zealand Institute of Financial Advisers.

We are a group of Certified Financial Planners, Chartered Life Underwriters, Accredited Investment Fiduciaries and we are all Authorised Financial Advisers. Talk to us about your financial future now. It is never to late too begin.