

## Death and Taxes - Changes to Life Insurance

Life insurance premiums look set to rise in the near future due to changes in the way that life insurers are taxed. Some industry commentators have warned of premium increases of up to 25%<sup>1</sup>.

Last year parliament passed the Taxation (International Taxation, Life Insurance, and Remedial Matters) Bill 2009. Amongst other things this has closed a tax privilege previously provided to life insurers (for a discussion of changes to the associated parties rules in that Act please refer to our last mail-out).

### Why the Change in the Law?

Without getting too technical, the existing tax laws are based on the assumption that insurance policies contained a savings component, and that it was the interest on this saving component of life insurance policies that would be taxed.

In the past life insurers tended to be mutual assurance societies that were owned by their policy holders. Profits were returned to life insurance policy holders through lower premiums and most policies were 'whole of life endowment.'

Today insurers are companies that make profits. Life insurance policies today normally do not have a savings component, they are straight term life cover, or in other words policies that cover you in the event of death during the term of the life insurance policy.

### How do these changes affect me?

Over time your life insurance premiums are expected to rise. The changes will start to take effect from 1 July 2010, but there is a five year transitional period intended to reduce the impact of what is effectively an increase in taxes of life insurance premiums. New life insurance policies in particular may become more expensive in the near future. Right now (before 1 July 2010) is probably a good time to review your life insurance cover. In particular now may be a good time to 'fix' your life insurance premiums. This could be achieved by changing your life insurance from a 'rate for age' basis where you are charged each year based on your risk of death (these premiums tend to rise as you get older), to a level premium basis where you are charged a fixed amount up to a stated age.

We regularly advise clients about insurance litigation matters, but assessing your insurance risk is beyond our area of practice. However, we can refer you to an insurance broker for a free assessment of your risk and recommendation.

Let us know if you would like to take up this offer. While we are on the subject of mortality, we also suggest that take the opportunity to review your will if you believe it is outdated.

## 2010 Budget: Summary

- GST is to increase from 12.5% to 15% on 1 October 2010
- Income tax cuts:

Income:	Current Rate:	New Rate:
\$0-14,000.00	12.5	10.5
\$14,001-48,000.00	21.0	17.5
\$48,001-70,000.00	33.0	30.0
Over \$70,000.00	38.0	33.0

- Company Tax rate to be cut from 30% to 28% from 1 April 2011
- Removal of the ability to claim depreciation on buildings
- Compulsory zero rating for GST of land transactions from 1 April 2011.

If you would like advice on how these changes may affect you, please contact us.

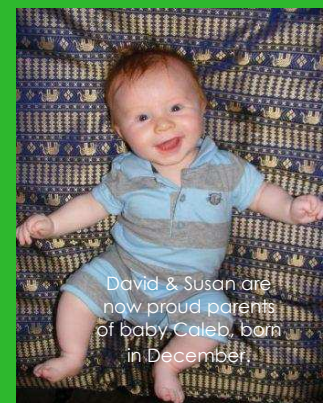
### SEMINAR

Special offer for Botherway Legal Clients! Refer to the attached leaflet, or visit [www.avaraconsulting.co.nz](http://www.avaraconsulting.co.nz)  
Karen Ross of Avara Consulting is offering what will be an extremely practical & helpful seminar!

## OFFICE NEWS



As most of you are now aware, Allie is on Maternity Leave and possibly returning August. Allie & Dale welcomed baby Mea in September of last year.



David & Susan are now proud parents of baby Caleb, born in December.

