

Thrive

with you for
generations
to come



Be set for life – with Family Promise

Becoming a parent is life changing – life becomes busier and more exciting than ever before. It's also a good time to think about the future for your family.

The research

In early 2010, Public Trust commissioned research which asked New Zealand parents with children under 18 about their greatest fears for their children's future, and the plans they had made to take care of them.

The research found that parents' biggest fears for their children were around future financial security and physical well-being. Yet, the results also showed almost two in five parents surveyed did not have a Will (36%), nearly a third did not have life insurance (29%), and only one in five had set up enduring powers of attorney (18%). Over five out of six (85%) did not have all three.

Alex Polaschek, Public Trust's General Manager for Personal & Business says, "All new parents want to do the right thing for their loved ones by putting plans in place for their future, but we found that there's either a general lack of understanding when it comes to what to do, or people are finding it difficult to find the time."

Becoming a parent is a busy, demanding time – but it's also a good time to think about the future and lay the foundations for protecting what's important.

A Will, life insurance and enduring powers of attorney work together to make sure that no matter what happens in life, your family is protected.

How can Public Trust help?

Family Promise, which combines a Will, life insurance and enduring powers of attorney in a single package, is specially designed for new parents and young families. This three in one service can be set up in just a couple of hours. "It's about making these things easy for new and settled parents, so that they can relax knowing that they've got the future sorted for their family," Mr Polaschek says.

A Will allows you to set out your wishes and specify how you'll provide for your loved ones after you're gone, such as who you want as guardians for your children, or who you want to leave your assets to. It also allows you to nominate an executor or trustee to carry out your wishes.

An enduring power of attorney sets out who will take care of your personal and financial matters if you can't, perhaps due to accident or illness. There are two types, one for your property and one for your personal care and welfare – both are about giving you better control over what should happen if you're unable to manage things yourself.

Life insurance fits naturally into this mix as it can help provide financial security for your family by managing debts or paying income, if something unexpected happens to you.

Wherever you're at in your life, we have the experience and expertise to help. If Family Promise sounds right for you, talk to us today.

Get the lowdown:

Budget 2010 >

On 20 May 2010 the Government announced the 2010 Budget. The changes include the biggest tax reform in nearly 25 years. To find out how the tax changes affect you visit <http://www.taxguide.govt.nz/>

Or for more general information about the budget visit <http://www.treasury.govt.nz/budget/2010>

Focus on family trusts >

Find out how the government's tax changes impact family trusts. See page 3 for more.

And read about a recent landmark court case, where family trusts were found to have been used for tax avoidance. Turn to page 4 for more.

\$5,000 education trust winner announced



The Berghan family of Manukau has won a \$5,000 education trust, simply for attending an appointment to discuss Family Promise with Public Trust. The education trust will help ensure their children are prepared for a bright future.

*To read more
about the Berghan
family's win see
page 4.*

Welcome

Times change and every so often the things we do need an update. That's what we tell our customers and it's just as important for us as an organisation.

So we've refreshed our former newsletter *Wise Words*, and developed *Thrive*. Welcome to the first edition!

Keeping up to date is part of our commitment to provide relevant information that helps you take care of what's important to you, now and in the future. Our lead article on page 1 shares some interesting research insights which demonstrate how many New Zealanders with young families are not as prepared as we should be for the future.

Over the past couple of years we've all heard a lot about the global financial crisis. For many, the effects of the crisis have proved challenging and Public Trust has been no exception. However, I'm pleased to say that despite a challenging six months our financial result for the half-year to December 2009 was a \$3.7m profit after tax. The result is largely due to an improvement in investment markets, as well as the hard work we've been doing to lift the quality of our customer service, and improve the products and services we provide.

As part of our promise to keep in contact, you'll receive *Thrive* quarterly. We hope you enjoy the first edition, and as always we welcome your feedback. If you'd like to talk to us about planning for the future, we're ready to share our expertise. Our new Family Promise package could be just what you need!

With best wishes

Grenville
Gaskell
Chief Executive



Things to remember...



Achieve peace of mind for you and your loved ones.

1

Make sure you have an up-to-date Will, enduring powers of attorney and life insurance. Talk to us about the Family Promise package. And remember, our Will service is free if we're appointed to manage your estate.

Find out about managing and protecting your assets.

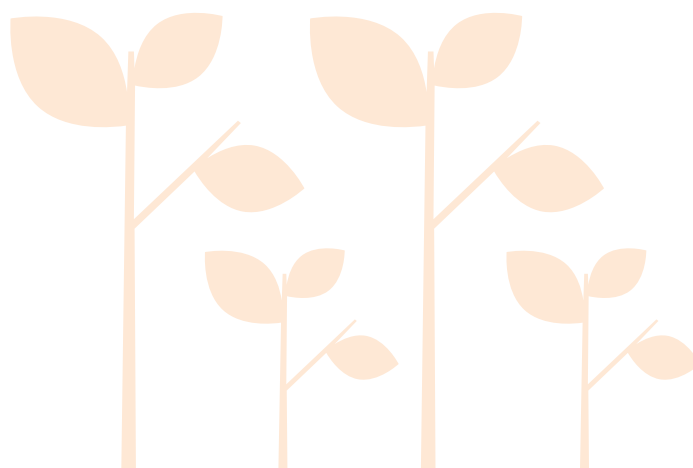
2

A family trust is a legal way to protect your assets and hold them for the future. Ask us for a free, no-obligation consultation, or come along to one of our seminar advertisements in your local newspaper, or if you'd like to register your interest for a future seminar call us on 0800 371 471.

Think about making a smart move.

3

If you're looking for a new home loan or coming off a fixed rate, ask us how we can help. We offer flexibility and competitive rates for Public Trust customers. We may also be able to complete your conveyancing. Take the first step and try our home loan calculator at www.publictrust.co.nz



SPECIAL REPORT: TAX CHANGES FOR TRUSTS

Tax changes for trusts – what you *need to know*

The 2010 budget announced by the Government in May included tax changes that are relevant to trusts.

The most significant decision has been to align the top personal income tax rate (formerly 39%) with the trust income tax rate at 33%. Family trusts have historically been seen as a way for high income earners to structure their financial affairs to achieve tax savings. However Public Trust has always cautioned its customers that any potential tax savings should be viewed as an added benefit rather than the reason for setting up a trust.

While the Government's decision to align these rates removes that particular tax benefit there are still ways to structure your trust to achieve tax savings. If your trust is earning income you may want to consider distributing or allocating more income to beneficiaries to take advantage of the lower marginal tax rates from 1 October 2010. Another option is for the trust to place its investments in a Portfolio Investment Entity (PIE) managed fund, as tax on PIE income will be taxed at 28% from 1 October 2010.

The company tax rate will also reduce to 28% (formerly 30%) from the 2011/2012 tax year. Some individuals may consider setting up a company instead of a trust as a means to achieve tax savings, but it's important to remember that a company can't protect your assets the same way a trust can.

Trusts remain a powerful tool

A family trust is a legal way to protect your assets and hold them for the future. Even after the budget changes, there are still lots of good reasons for having a family trust.

Protect your assets and prevent unwelcome claims against your estate – Putting your assets in to a trust means you effectively no longer own them. This can help protect your assets from debts or liabilities you could incur in the future.

If you transfer your assets in to a trust early enough, it may also mean they'll be exempt from asset testing if you need to move in to residential care later in life.

While a trust can't be used to prevent the sharing of relationship property, if your assets are owned by a trust before you meet

a new partner you may not have to share those assets with them if you separate. Having your assets protected by a trust can also help protect your children's and grandchildren's inheritances should they have any relationship breakdowns in the future.

Have more say about how your assets are managed –

A family trust makes it possible for you to plan and control the passing of your assets to your children and grandchildren while you're still alive. A trust is much harder to challenge than a Will and can reduce the opportunity for unwelcome claims on your estate.

Maintain confidentiality – As the details of a trust are confidential, they can be useful for people in business or high profile positions who would like to maintain privacy around major assets.

What else has changed?

From the 2011/2012 tax year, the rate at which property can be depreciated will reduce to 0%. This change is targeted at landlords who claim depreciation on rental properties. It shouldn't affect you if you live in the house you have settled in a family trust, but may affect you if you have also settled a rental property in trust. Because you will no longer be able to claim expenses against the rental property, your total taxable income will effectively increase.

Investment losses, such as those from a rental property will no longer be taken into account to determine eligibility for Working for Families tax credits. The Government has also indicated that further solutions to maintain the integrity of social assistance programmes like Working for Families will be considered later this year. This will include a review of income and capital distributions from trusts. We'll share more information about this review as it's announced.

In the meantime, if you're affected by any of the changes you should contact your independent tax adviser for guidance.

We have been helping New Zealand families protect their assets for over 135 years. If you'd like more information about family trusts, contact us today.

Landmark trust case – surgeons lose tax avoidance appeal

The Court of Appeal has recently overturned an earlier High Court ruling in favour of orthopaedic surgeons Ian Penny and Gary Hooper, whom the Inland Revenue Department (IRD) accused of avoiding tax through family trusts.

The surgeons had both set up family trust-owned companies to buy their orthopaedic practices. Each trust paid the men an annual salary of \$100,000 and \$120,000 respectively, but the majority of the practices' income was earned by the trust and taxed at the 33% trust rate, rather than at the top personal tax rate of 39%.

Most people set up a trust to protect important assets for the future, like a family home, and in these cases managing tax is straightforward. But if you're thinking about structuring your trust to own a business or earn income, it is important to seek good tax advice before you proceed.

Tax benefits do not necessarily constitute tax avoidance, but in the case of Mr Penny and Mr Hooper the annual incomes paid to them by the trusts were significantly less than the salaries they had earned prior. Justice Randerson said: "The difference here is that salaries were adopted at levels so far below ordinary commercial expectations that, in the absence of legitimate reasons for doing so, there is a strong implication of tax avoidance."

It is expected the decision in the Penny and Hooper case will be appealed to the Supreme Court, and in any event, the Government's budget decision to align the top personal tax rate with the trust tax rate at 33% may reduce the effect of the Court of Appeal's ruling and may also bring an end to the use of trusts as a means to achieve tax savings.

If you'd like more information about trust income and tax you should contact your independent tax adviser.

* *Tax ruling 'shifts' law*, Ben Heather and Jo Gilbert, The Weekend Press, 5 June 2010, page 1.



PUBLIC TRUST NEWS

We have a winner!

A young Manukau family has won a \$5,000 education trust account that will help to ensure their children are prepared for a bright future.

Sharon Berghan says her family was thrilled to find out they had won the education trust, offered through Public Trust's recent *Family Promise* campaign, and believes her two young children will benefit from it greatly in years to come. "We had been setting aside money into accounts but had no idea we could specifically set up a trust for their education. Knowing we have such a substantial amount already invested is great," says Mrs Berghan.

In order to share the prize equally between the Berghans' two children, Public Trust set up two trusts, splitting the total value between them.

Heather Nicol, Public Trust's Customer Centre Manager in Manukau says they were delighted that a local Manukau family won the prize that will help give their children a head start for their future education. "We are also pleased that the win has meant that this family has started to put the necessary plans in place to help protect their children's future," says Ms Nicol.

If you'd like to find out more about education trusts, contact us today.

*Wherever you're
at in life, we've
been there too...*

Estate Planning & Management

Wills

Enduring powers of attorney

Estate administration

Trusts

Family trusts

Pre-paid funeral trusts

Education trusts

Inheritance trusts

Charitable trusts

Savings & Investing

Term deposits

On-call accounts

Investment funds

Property

Home loans

Equity release home loans (60+)

Conveyancing

Investment property loans

Managing Financial Affairs

Collecting income

Paying bills

Looking after property matters

Tax returns

Insurance

Life insurance

*A disclosure
statement is available,
on request and free
of charge*

Get in touch!

We're located in the heart of communities across the country, so why not pop in and see us? Visit www.publictrust.co.nz to find your nearest Public Trust customer centre.

Or you can...

Call us on **0800 371 471**

email info@publictrust.co.nz

or visit www.publictrust.co.nz

A final word on advice...

This newsletter contains general information only – it is not a substitution for professional advice. No liability will be accepted for any loss incurred by relying on this newsletter.