



Double Depreciation for Plant, Equipment and Machinery

With the right economic policy, we can grow and rebuild our economy from the biggest economic downturn the world has seen since the Second World War.

Our economy needs stimulus to ensure it rebounds quickly from the recession, jobs are saved and households and businesses have confidence.

New Zealand has suffered a second lockdown, worsening fiscal and economic projects and the largest economic contraction in New Zealand's history.

More than 70,000 New Zealanders have gone on to unemployment benefits since March and Stats NZ estimates a further 185,000 people expect to lose their job in the next year.

It has become clear that immediate fiscal stimulus is needed to boost the New Zealand economy, inject cash and confidence into households and businesses and restore our economic prospects.

National believes short term stimulus to encourage businesses to invest in new plant, equipment and machinery is necessary. Encouraging businesses to invest will lift productivity, increase incomes and create jobs.

The Policy

National will encourage businesses to invest in significant new plant, equipment and machinery by offering a 12 month tax incentive for investments over \$150,000.

National has already announced a policy to allow businesses to instantly deduct new capital investments up to \$150,000.

This policy will allow businesses who invest in Plant, Equipment and Machinery worth more than \$150,000 to double their depreciation

rate on that investment over the life of the asset. The policy will apply to new investments for 12 months.

The policy will encourage new investment by reducing the cost of new investment and therefore increasing its return.

In our first Budget we will assess the state of the economy and the effect on job creation, with a view to extending the scheme.

Example

A manufacturing business is considering investing in a new piece of machinery worth \$1 million, which would have a depreciation rate of 10 per cent. But the business is uncertain about the future so is reluctant to invest in the new machinery.

However, because of National's policy, they would be allowed to depreciate the asset at 20 per cent per year which will reduce their tax liability by \$100,000 a year for five years. Because of the tax incentive, the decision to invest is now justified so the business goes ahead with the investment, which creates jobs and lifts productivity for the business.

Fiscal Impact

The total cost of the package is estimated to be \$430m per year for five year. After which, tax revenues will likely rise as firms will not be claiming the depreciation they would otherwise be.

There are uncertainties about the fiscal impact based on the impact of the economic crisis on new business investment, which we assume will be offset by the incentive to invest created by this policy.



Income	Weekly Savings	Total Savings (16 Months)
\$30,000	\$8.1	\$560
\$40,000	\$8.1	\$560
\$50,000	\$12.9	\$893
\$60,000	\$36.9	\$2,559
\$64,000	\$46.5	\$3,226
\$70,000	\$46.5	\$3,226
\$80,000	\$52.3	\$3,626
\$90,000	\$58.1	\$4,026

A single superannuitant will be \$560 better off under these changes and a superannuitant couple will be \$1000 better off, not including the increase as a result of the increase in the after-tax average income. These savings are in addition to the Winter Energy Payment, which will not change under National.

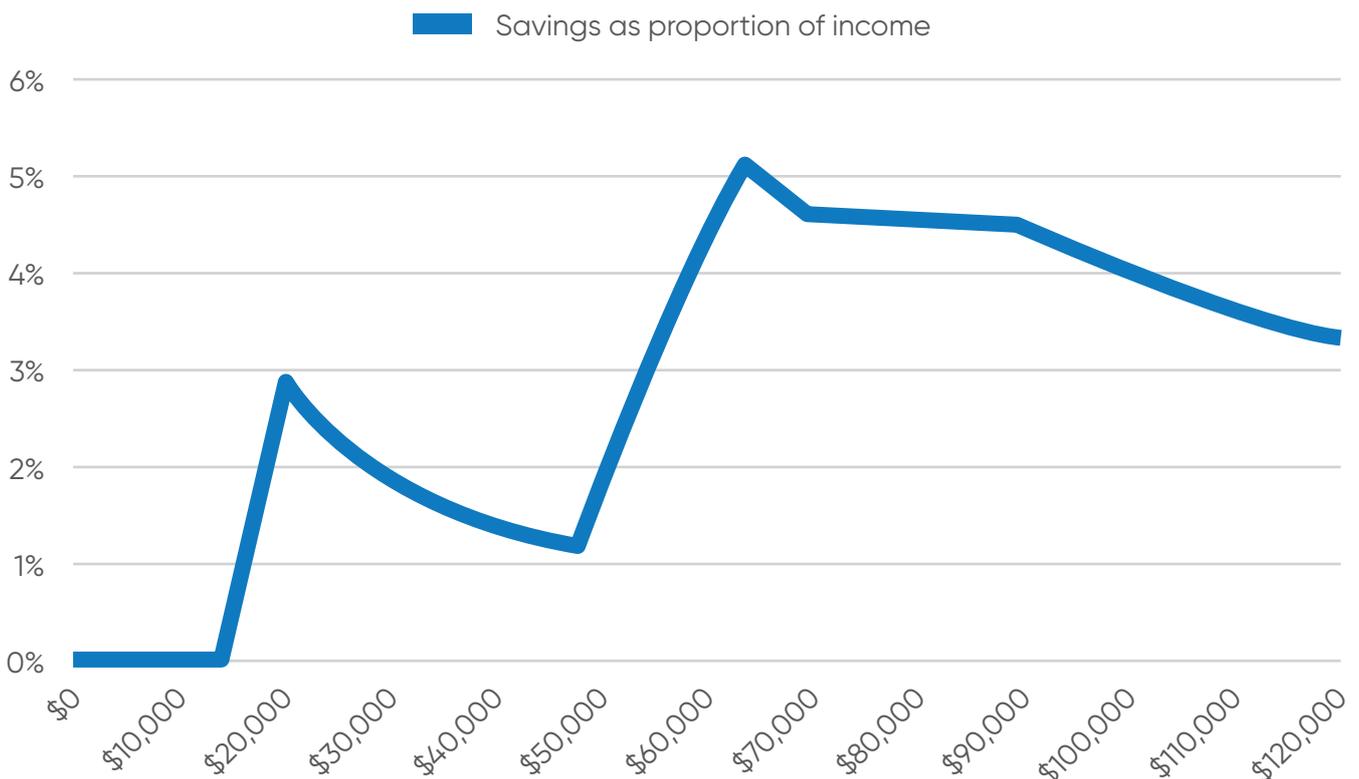
Changes to income tax brackets have no direct effect on working for families or other benefits (like the accommodation supplement) because those benefits are linked to pre-tax income.

Fiscal Impact

The total cost of the package is estimated to be \$4.7 billion over the 16 month period. This includes \$2.0 billion in the 2020/21 fiscal year and \$2.6 billion in the 2021/22 fiscal year.

Middle income earners receive the largest benefit as a proportion of their income (see figure 1 below). As a proportion of income, the largest benefit is for someone on the average income of \$64,000. There are no further tax savings for incomes over \$90,000.

Tax Savings to Income Ratio





Average Tax Rate by Income Level

Average Tax Rate Current Average Tax Rate New

