



Double Depreciation for Plant, Equipment and Machinery

With the right economic policy, we can grow and rebuild our economy from the biggest economic downturn in living memory.

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 projections 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 the Treasury forecast an additional 100,000 will lose their job in the next two years.

It has become clear 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 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 \$430 million 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.