Budget 2007

Saving and Investing

Hon Dr Michael Cullen
Minister of Finance

Hon Peter Dunne
Minister of Revenue

$3.4 billion for investment and innovation

Budget 2007 delivers the most substantial changes to the business environment in twenty years, which will help develop a more innovative and dynamic economy, better able to compete in the global marketplace.

"The Labour-led government is investing $3.4 billion dollars over the next four years in order to accelerate the transformation of New Zealand into a more resilient and flexible economy able to withstand the challenges we face today," said Finance Minister Michael Cullen and Revenue Minister Peter Dunne.

"If we are to lift the sustainable rate of growth of the economy businesses must do better at producing the kinds of products that can command a premium in overseas markets.

"That's why we are determined to give businesses the tools they need to compete effectively and ensure New Zealand becomes a much more attractive place to invest and do business.

"The Business Tax Reform package in Budget 2007 contains the first cut to the company tax rate since 1988 and builds on the $1.4 billion package of depreciation and other business tax measures announced in Budget 2005.

Budget 2007 provides: (over four years)[1]

- A cut in the company tax rate from 33 per cent to 30 per cent. The direct cost is $2.1 billion, effective 2008/09. In addition, the cost of transitional company tax changes will be $130 million over four years.
- A 15 per cent tax credit for research and development ($630 million)
- Changes to tax treatment of savings vehicles ($180 million)
- Greater export market development assistance ($87.8 million)
- Expansion of industry training ($53 million).

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[1] Included in the total Business Tax Reform package is the cost of extending the Specified Superannuation Contribution Withholding Tax exemption for employer contributions to complying superannuation funds at a cost of $74 million over four years.

"In addition, the suggested changes to New Zealand's international tax rules are estimated to have a four-year cost of $112.5 million.

"We are confident the changes unveiled today will help businesses expand here and overseas, improve their ability to research and develop new products and processes and invest in skilled staff in order to lift productivity.

"The Labour-led government is committed to raising the low level of private funding of R&D. The tax credit substantially lowers the cost of R&D, and therefore gives smaller companies the incentive to start investing in R&D and larger companies to expand their research.

"The changes will also drive higher productivity, which is essential to improve competitiveness and lift wages and so living standards across the economy," said the Ministers."

The Business Tax Reform package advances the objectives of the confidence and supply agreements with United Future and New Zealand First.

"These are substantial changes which I am confident will make a real difference to our economic performance and so our ability to raise living standards," said Mr Dunne.

"The measures announced today build on the Labour-led government's integrated strategy designed to lift the speed limit of the economy," said Dr Cullen.

"The Business Tax Reform package, in particular complement our efforts to encourage saving. Greater saving will help deepen capital markets, which should make it easier for businesses to access the capital they need to grow and prosper.

"The investments in business tax changes, world class infrastructure and a revitalised tertiary sector capable of producing more highly skilled graduates, coupled with greater savings will all help reduce the stresses we see today in inflation, high interest rates and an over-valued exchange rate.

"The reforms build on progress we have already made in fostering a supportive business environment. We are recognised internationally by the World Bank for the ease of doing business.

"We are determined to go further. Therefore, the government will further investigate reducing business tax compliance costs, which are a particular concern for small and medium-sized businesses. A discussion document exploring options for doing this will be issued later this year."

Business tax reform snapshot

Company tax cut to 30 per cent
"This brings the company rate in line with Australia so improving our competitiveness with our biggest export market as well as making New Zealand a more attractive location internationally from which to generate profits. This also helps companies to reinvest profits to drive greater productivity.

Research and development tax credit
"This mirrors similar concessions in Australia and elsewhere – three-quarters of the OECD club of developed economies offer R&D tax incentives. There is international evidence that non-discretionary assistance such as tax credits may be more cost-effective than discretionary assistance such as grants at boosting business R&D. The tax credit is expected to have wider benefits for the New Zealand economy. The aim is to help raise the rate of private sector R&D investment in New Zealand, currently only a third of the OECD average.

International Tax Review
"The government is introducing a tax exemption for active income (such as income from manufacturing and distribution) of New Zealand controlled companies based in overseas markets. This will enable New Zealand-based firms to expand overseas at a lower tax and compliance cost. This will bring New Zealand in line with the world's best practice in this area and so should help to reduce the incentive for our companies to migrate overseas. Further information on the continuing review is set out in 'New Zealand's International Tax Review: an update', available at http://www.taxpolicy.ird.govt.nz./

Expanded market development assistance
"The additional funding of $87.8 million for the Market Development Assistance Scheme reflects the decision not to proceed with a tax credit. After consultation with business this was a considered a more effective approach to boost productivity and competitiveness.

Expanded skills training
"The extra funding of $53 million to boost participation in industry training reflects the decision not to proceed with a tax credit. After consultation with business this was a considered a more effective approach to address skills shortages. The extra funding will provide further assistance towards the government's goal of 220,000 in training annually by 2011.

Tax treatment of savings vehicles
Consistent with the aim to encourage savings, certain vehicles such as unit trusts and widely held superannuation schemes will also be taxed at the new 30 per cent rate. The top tax rate for portfolio investment entities will also be capped at 30 per cent.