20 May 2010

Fact sheet – Company tax cut

What is changing?

- The company tax rate will fall from 30 per cent to 28 per cent from the 2011/12 income year. For most companies, this will apply from 1 April 2011.
- The Government will allow dividends issued after the new company rate takes effect to be imputed at the existing 30 per cent rate for two years if company tax has been paid at the 30 per cent rate.

Why?

- A lower company tax rate encourages productive investment in New Zealand, thereby increasing productivity, raising wages and creating jobs.
- New Zealand's company tax rate is high compared to most other developed countries, which affects our international competitiveness.
- A lower rate will help companies which retain and reinvest earnings.

Key facts

- The average company tax rate in the OECD in 2009 was 26.3 per cent.
- Australia has just announced plans to lower its company tax rate to 28 per cent, phased in over three years from 2012/13.
- About 360,000 companies registered in New Zealand filed tax returns in the last income year.
- The company rate reduction is part of a package of measures to widen the business tax base while lowering overall rates.
- Company tax is not a final tax for New Zealand shareholders. New Zealand shareholders are ultimately taxed at personal income tax rates, which have all been reduced as part of the tax package.
- The company tax cut will cost $20 million in 2010/11, rising to $340 million in 2011/12, and then falling to $305 million in 2013/14. (These costs are affected by timing issues relating to the transitional imputation measure).

More information

- *A special report explaining the relevant amendments will be available on Inland Revenue's Policy Advice Division website at www.taxpolicy.ird.govt.nz after Budget day legislation is introduced.*