20 May 2010

Fact sheet – Depreciation loading

What is changing?

- Businesses will no longer be able to claim 20 per cent accelerated depreciation on new plant and equipment.
- This change will apply to assets purchased after Budget day. The old rules will continue to apply for assets purchased before this date.

Why?

- The 20 per cent depreciation loading distorts people's decisions about what capital assets to invest in. For example, if a business buys a new car or computer, it gets the advantage of the depreciation loading but not if it buys a second-hand piece of machinery. These sorts of distortions have a real cost to the economy.
- The 20 per cent loading also means some projects which don't stack up on their own merits are taking place, because they are effectively being subsidised by taxpayers.

Key facts

- Because of the 20 per cent loading, New Zealand's overall depreciation allowances are more generous than in most other developed countries.
- The removal of the 20 per cent loading is part of a package of measures to widen the business tax base while lowering overall rates.
- These changes will raise $135 million in 2010/11, rising to $345 million in 2013/14.

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.*