Budget 2010 Tax Package – Potential Impact on NZ Companies

19 March 2010

Company impact of depreciation changes:

• The primary policy motivation for the base broadening depreciation measures is to reduce tax preferences for particular forms of investment – rather than an objective to increase the total tax take from companies.

• Changes to depreciation have varying levels of impact on large and small companies. On average the changes amount to the equivalent of increasing the company tax rate to 33% for businesses small and large.

• Those companies making smaller profits are hit hardest by the changes in terms of their marginal tax rates. The more asset heavy companies are impacted the most. Companies making higher real profits (rather than just tax profits) are impacted less.

• There is no difference between the impact on foreign owned or New Zealand owned companies.

• Small companies may rely less on large investments in buildings and plant and machinery and concentrate on growing their businesses through investing in more highly skilled workers, therefore may be less affected by these changes – though will still on average see an increase in their overall tax liability.

Company tax reduction:

• On aggregate this does not fully offset the depreciation changes (the package still taxes companies more in total).

• But, it does provide offset for much of the impact for many firms.

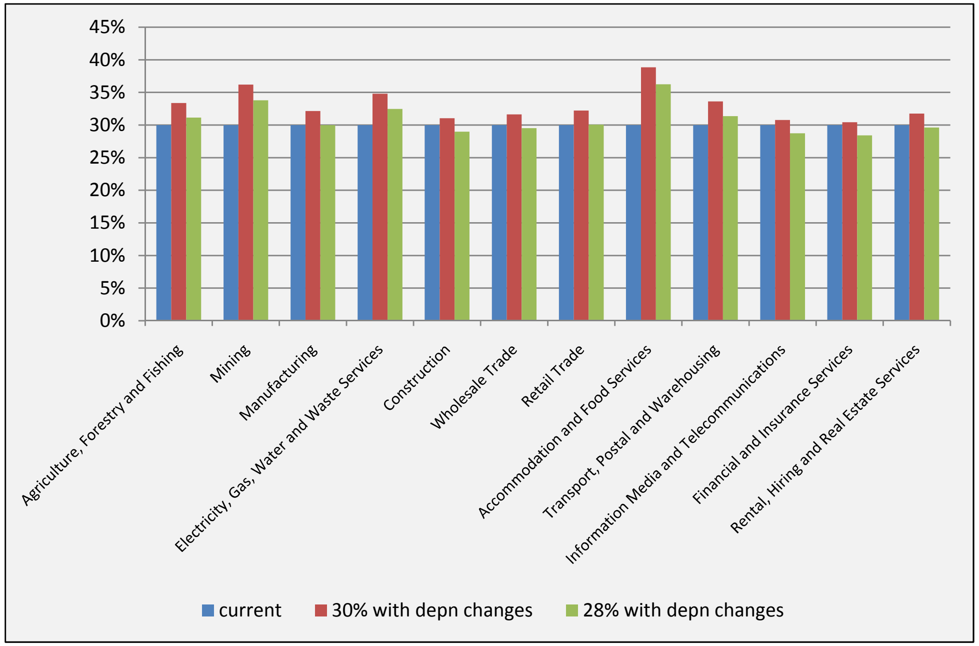
• A company tax reduction improves incentives for foreign investment in New Zealand, with positive impacts for productivity.

• 98% of New Zealand companies have less than 1% of foreign equity. Larger businesses have more (25% of larger businesses have >50%). The tax changes will affect large and small businesses similarly.

•SME's (up to 19 employees) account for over 30% of total employment. Companies up to 100 employees employ over 1m people (over 50% of total employment). Enterprises with less 5 employees account for over 40% of all profits; enterprises with less than 100 employees account for two thirds of all profits.

• Depreciation changes without a company rate cut may be net negative for growth.

Effective Tax Rates on NZ-Owned Companies by Industry



Note:
• Source: Stats NZ/MED.
• Firms are grouped by industry according to ANZSIC classifications.
• Graph shows the impact on a firm with taxable profits and depreciation claims in the upper quartile for each industry.
• Data only covers 100% owned New Zealand firms.
• **Data limitations prevent analysis of impact of removal of building depreciation.**
• Depreciation changes are accurate for businesses without buildings. For businesses affected by building depreciation changes, effective tax rates will be higher than shown in both alternative scenarios.

Effective Tax Rates on Selected Large NZ Companies

[Information deleted in order to protect the commercial position of the person who supplied the information, or who is the subject of the information]