

Business cashflow and tax measures factsheet

Reintroducing depreciation on commercial and industrial buildings

Overview: Depreciation deductions will be reintroduced for new and existing industrial and commercial buildings, including hotels and motels. This will help support businesses with cashflow in the near-term and assist with the broader economic recovery by stimulating business investment in new and existing buildings.

Reinstating building depreciation will support longer-term economic productivity and macroeconomic objectives by:

- encouraging investment in business premises and decreasing the cost of such premises over time;
- improving business confidence; and
- enabling the capital cost of seismic strengthening of buildings to be depreciated.

Estimated total cost: \$2.1 billion over the current forecast period (until 2023/24)

Payments able to be applied for, and received from: A Bill containing this measure will be introduced shortly. The law will allow owners of commercial and industrial buildings (including hotels and motels) to start reducing their provisional tax payments for the 2020-21 income year immediately. There is no application process as the increased deduction will be available as part of normal tax filing processes.

| Design | Decisions |
|--------------------------|---|
| Sectors | All sectors eligible |
| Regions | All regions eligible |
| Disruption to business | None |
| Scale | 2% Diminishing Value |
| Duration of support | Permanent |
| Duration of the scheme | Permanent change |
| Other pre-qualifications | Own a commercial or industrial building |
| Administering agency | Inland Revenue |

Examples:

Jane owns (through her company) a motel building with a tax book value of \$3m. Under current tax law it is not depreciated. From 2021/22 Jane is able to depreciate the building at a rate of 2%, which means her company can claim a deduction of \$60,000 in the 2021/22 year, reducing her taxable profit. This results in her company having \$16,800 less tax to pay that year (as the company tax rate is 28%).

Immediate deductions for low value assets

Overview: Taxpayers will be able to deduct the full cost of more low-value assets in the year they purchased them, rather than having to spread the cost over the life of the asset.

Taxpayers are currently able to claim an immediate deduction for the purchase of assets that cost less than \$500. This threshold will be further increased to allow the immediate expensing of assets that cost up to \$5,000, for a year (2020-21 income year). The temporary increase (to \$5,000) is designed to incentivise taxpayers to bring forward investments to encourage spending. The threshold is being permanently increased to \$1,000 (from 2021-22 income year onwards). This will reduce compliance costs for businesses and encourage businesses to continue investing.

An increase in the threshold for writing off low value assets will reduce compliance costs for businesses. It will also have the side-benefit of stimulating business purchases (although overall impacts on demand are likely to be small).

Estimated total cost: \$667 million over the current forecast period (until 2023/24).

Payments able to be applied for, and received from: This will take effect for expenditure made on or after 1 April 2020 for most taxpayers.

| Design | Decisions |
|--------------------------|--|
| Sectors | All sectors eligible |
| Regions | All regions eligible |
| Disruption to business | None |
| Scale | N/A |
| Duration of support | Permanent |
| Duration of the scheme | Temporary \$5,000, Permanent \$1,000 threshold |
| Other pre-qualifications | None |
| Administering agency | Inland Revenue |

Examples:

Capes Comics Limited (Capes) is a comic store that sells comics and comic-related merchandise who wants to expand by investing in two new display cabinets worth \$4,600 in total. Clark believes this will increase his sales of high-value action figures.

However, with the COVID-19 restrictions he is anxious about investing the \$4,600 especially given he can only deduct the cost of the cabinets over time through tax depreciation, and not immediately.

The Government's change to the low value asset write-off threshold will mean that Capes can claim an immediate deduction for the cost of the cabinets, meaning it can reduce the tax paid this year by \$1,288, instead of that amount being spread over a number of years.

Fewer small businesses having to pay provisional tax

Overview: Increasing the threshold for having to pay provisional tax from \$2,500 to \$5,000 allows more small taxpayers to delay paying their taxes. This means they have until 7th February following the year they file to pay their tax, instead of having to pay in instalments throughout the year. This lowers compliance costs for smaller taxpayers and allows them to retain cash for longer.

Estimated total cost: \$4 million over the forecast period.

Payments able to be applied for, and received from: Taxpayers that would have otherwise been paying provisional tax in the 2020-21 tax year will now be able to pay their tax on 7th February 2022 – providing immediate cashflow benefits estimated to be \$350 million in the 2020/21 fiscal year.

Further details: This measure has a one-off cash impact on Government net-debt, increasing it by \$350 million in 2020/21. This is due to differences in tax payment timings.

| Design | Decisions |
|--------------------------|--|
| Sectors | All sectors eligible |
| Regions | All regions eligible |
| Disruption to business | None |
| Scale | N/A |
| Duration of support | N/A |
| Duration of the scheme | Permanent change |
| Other pre-qualifications | Income tax liability for the year of \$5,000 or less |
| Administering agency | Inland Revenue |

Example:

Jenny is a tour guide who provides tours of the Lord of the Rings filming location sites around Wellington through her company Jenstar Tours Limited (JTL). She gets the majority of her customers from tourist ships visiting Wellington. In the 2019-20 income year JTL's tax liability was \$8,000 but because of the recent changes to address the spread of COVID-19 its 2020-21 tax liability is expected to be half that amount.

The change in threshold from \$2,500 to \$5,000 will mean that JTL will not be a provisional taxpayer for the 2020-21 income year, so instead of paying tax throughout the year, JTL will not have to pay tax until 7 February 2022, which improves her cashflow during the year.

Writing off interest on some late payment of tax

Overview: The Commissioner of Inland Revenue will be given the power to waive interest on late tax payments for taxpayers who have had their ability to pay their tax on time significantly adversely affected by the COVID-19 outbreak. Use of Money Interest (UOMI) is routinely charged on late tax payments.

Estimated total cost: This measure will result in foregone Crown Revenue. The amount of foregone revenue is not able to be quantified at this time. This will not result in a fiscal cost to the Crown accounts because the Government's fiscal forecasts currently do not include COVID-19 related UOMI charges.

Payments able to be applied for, and received from: The relief will apply to interest on all tax payments (including provisional, PAYE, and GST) due on or after 14 February 2020.

Further details: The Commissioner will have this power for two years.

| Design | Decisions |
|--------------------------|--|
| Sectors | All sectors eligible |
| Regions | All regions eligible |
| Disruption to business | Similar to wage subsidies |
| Scale | N/A |
| Duration of support | N/A |
| Duration of the scheme | Two years from date of enactment of announcement, unless extended by Order in Council |
| Other pre-qualifications | Businesses and individuals will need to show an inability to pay tax by the due date as a result of being significantly adversely impacted by COVID-19. Detail on objective tests is yet to be finalised but will be in the coming days. |
| Administering agency | Inland Revenue |

Example:

Corrine owns a small café. In the last few weeks the business experienced a sharp decline as people avoid going out due to concerns about COVID-19.

Because of the effect of COVID-19 on the business, her turnover is about half of what it was a year ago, and she won't be able to pay an upcoming tax bill in full. She's tried to get a further extension to the business overdraft from the bank, but has been unsuccessful.

There are a range of options Inland Revenue has to help customers who are struggling to meet tax payments. Working through these options, Corrine is able to enter into an instalment arrangement to pay off the tax bill over the next six months.

This new measure will allow Inland Revenue to write off any use of money interest on this debt.