The Treasury

Budget 2025 Information Release

September 2025

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[36] 9(2)(h) - to maintain legal professional privilege

[37] 9(2)(i) - to enable the Crown to carry out commercial activities without disadvantage or prejudice

[38] 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice

[39] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage

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Inland Revenue
Te Tari Taake

POLICY

TE TAI ŌHANGA
THE TREASURY

Tax policy report: Detailed design of Investment Boost

Date:	26 March 2025	**Priority:**	Medium
Security level:		**Report number:**	IR2025/108 T2025/777

Action sought

	Action sought	Deadline
Minister of Finance	**Agree** to recommendations **Note** the contents of this report	7 April 2025
Minister of Revenue	**Agree** to recommendations **Note** the contents of this report	7 April 2025

Contact for telephone discussion (if required)

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26 March 2025

Minister of Finance
Minister of Revenue

Detailed design of Investment Boost

Executive summary

1. This report seeks joint Ministers' agreement to the detailed design of Investment Boost. Design decisions are needed to begin drafting the Bill which is intended to be passed under urgency on Budget night. Some decisions also have fiscal impacts that need to be decided before the Budget Moratorium starts on 14 April.

2. Ministers have already provided direction on the broad parameters of the policy, including a commencement date of Budget day, and exclusions for residential buildings, fixed-life intangible property and certain second-hand assets. Ministers are still considering the applicable rate on which the deduction is based but have indicated it is likely to be 20 percent.

3. Officials propose that the design of Investment Boost be based on the design of previous depreciation loading regimes in New Zealand. This centres the policy around the definition of depreciable property (as defined in the Income Tax Act 2007). There are two assets classes that are not included in this definition that we recommend are included in Investment Boost. These are primary sector land improvements and certain kinds of petroleum and mineral mining expenditure. Including these assets would have a fiscal cost of $20 million over the forecast period. We also recommend that improvements to depreciable property are eligible for Investment Boost.

4. The previous depreciation loading regime defined a new asset as an asset that is new to the tax base. We recommend an adjustment to this definition to exclude assets that have previously been used for personal use in New Zealand. Officials consider this would better support the integrity of the policy.

5. We also seek decisions on several additional design features relating to (1) whether Investment Boost is an optional deduction (2) how the deduction is apportioned for assets that are used for business and non-business purposes; and (3) the interaction with the Research and Development Tax Incentive (RDTI).

Recommended action

Officials recommend that you:

		Minister of Finance	Minister of Revenue
Asset coverage			
1.1	**agree** that all depreciable property except residential building and fixed-life intangible property is eligible for Investment Boost.	Agreed Not agreed	Agreed Not agreed
1.2	**agree** that new improvements to depreciable property are eligible for Investment Boost	Agreed Not agreed	Agreed Not agreed

1.3	**agree** that primary sector improvements are eligible for Investment Boost.	Agreed Not agreed	Agreed Not agreed
1.4	**agree** that mining assets are eligible for Investment Boost.	Agreed Not agreed	Agreed Not agreed
1.5	**note** that including mining assets would have a fiscal cost of $20 million over the forecast period.	Noted	Noted
Qualifying criteria			
2.1	**agree** that Investment Boost is available for qualifying assets acquired on or after 22 May 2025.	Agreed Not agreed	Agreed Not agreed
2.2	**agree** that assets that have previously been used in New Zealand (other than as trading stock) do not qualify for Investment Boost.	Agreed Not agreed	Agreed Not agreed
Other design features			
3.1	**agree** that the Investment Boost deduction will be recoverable if an asset is sold above its adjusted tax value.	Agreed Not agreed	Agreed Not agreed
3.2	**agree** that the Investment Boost deduction will be optional, and taxpayers can opt to depreciate their assets under the current rules instead.	Agreed Not agreed	Agreed Not agreed
3.3	**agree** that the Investment Boost deduction is apportioned for mixed-use assets based on use over the first 12 months of use.	Agreed Not agreed	Agreed Not agreed
3.4	**agree** the Investment Boost deduction is NOT an eligible amount for the purposes of the Research and Development Tax Incentive (RDTI).	Agreed Not agreed	Agreed Not agreed
3.6	**note** that officials will provide the Minister of Revenue with further advice on any additional integrity measures necessary to ensure the policy works as intended	Noted	Noted

Jean Le Roux
Manager, Tax Strategy
The Treasury

Felicity Barker
Policy lead
Inland Revenue

Hon Nicola Willis
Minister of Finance
/ /2025

Hon Simon Watts
Minister of Revenue
/ /2025

Purpose

1. This report seeks joint Ministers' agreement to the detailed design parameters of Investment Boost assuming it is included in the Budget. Design decisions are needed to begin drafting the Bill which is intended to be passed under urgency on Budget night. Some decisions also have fiscal impacts so need to be decided before the Budget Moratorium starts on 14 April.

2. You will be receiving a similar report on the other tax policy items in Budget 2025 prior to the joint Ministers' meeting on 7 April.

Background

3. Investment Boost will be a new a tax deduction available to New Zealand businesses when they purchase qualifying assets. The deduction is equal to a percentage of the cost of the asset and can be deducted in the income year that the asset is first used. Ministers are still considering the rate but have indicated it is likely to be 20%.

4. Ministers have already provided direction on the broad parameters of the policy. This report confirms those parameters and provides more detailed advice on asset coverage, qualifying criteria and other issues related to the design of Investment Boost.

Asset coverage

5. Capital assets are assets that a business can keep for longer than a year. Businesses can generally claim depreciation losses on capital assets that meet the definition of depreciable property instead of claiming them as expenses. Most capital assets are depreciable property. Depreciable property is a defined term in the Income Tax Act 2007. It excludes the following capital assets:

   - low-value assets that are fully written off on acquisition
   - trading stock
   - certain intangible assets, for example, goodwill
   - assets that do not decline in economic value (e.g., land)
   - assets whose cost is allowed as a deduction under some other tax provision (e.g., primary sector land improvements and certain mining assets).

6. We recommend that all depreciable property be eligible for Investment Boost (except for residential buildings and fixed-life intangible property – see below).

Exclusions

7. Ministers have indicated that Investment Boost will apply to commercial and industrial buildings but not residential rental buildings. Ministers have also confirmed that fixed-life intangible property (e.g., patents) will not be eligible for Investment Boost (T2024/3304 and IR2024/459). We will draft legislation on this basis. We do not recommend any further exclusions, but we draw you attention to international aircraft because they were excluded from the previous depreciation loading regime.

8. Most depreciation rates are set by the Commissioner of Inland Revenue through a formula that is based on the estimated useful life of an asset. However, long-lived buildings and certain kinds of vehicles have depreciation rates set in statute. International aircraft have a statutory depreciation rate of 15% diminishing value (DV) and 10% straight-line (SL). We think this is an uplift of around 50% above

their economic rates. The historical reason for this uplift was to ensure the airline industry in New Zealand remained competitive when depreciation rates were dropped considerably in the early 1990s. Depreciation loading (the accelerated depreciation regime between 1996 and 2010) was previously denied for international aircraft because they received this more generous statutory concession. We have not reviewed the case for whether this statutory rate is still appropriate. However, it would seem more appropriate to re-examine the rate rather than deny them Investment Boost.[1] We recommend that international aircraft are eligible for Investment Boost. Officials can provide advice on the depreciation rate of international aircraft if you would like.

9. We recently provided you with advice on decreasing the depreciation rate for non-hire small passenger motor vehicles from 30% to 20% DV. You decided not to progress the change at this time (IR2024/509 refers). We note that these assets will be eligible for Investment Boost under the proposed criteria.

Additional inclusions

10. Some assets are not depreciable property but are allowed depreciation-type deductions. Where these assets are well-defined in legislation, we recommend that they are also eligible for Investment Boost. Denying these assets Investment Boost could disadvantage them relative to other assets and decrease the overall efficiency of the policy. We discuss these assets here.

Farm and forestry land and aquaculture improvements

11. Expenditure on farm and forestry land and aquaculture improvements can be deducted according to slightly concessionary rules. These primary sector assets were previously eligible for depreciation loading and we recommend these assets be eligible for Investment Boost. This is a small asset class, and the cost is unquantifiable.

Mining assets

12. The petroleum and mineral mining industries have depreciable assets and will be able to claim Investment Boost on those assets. However, these industries also have access to special rules in the Income Tax Act 2007 for deducting certain kinds of expenditures. Where an asset's useful economic life depends on the remaining life of a permit, the rules allow the asset to be depreciated on a straight-line basis or using a units-of-production basis. The rules aim to ensure that miners can typically get a deduction for all their expenditure where they may have otherwise been denied a deduction.

13. We recommend that mining assets that are depreciated under these special rules are eligible for Investment Boost. Typically, when changes have been made to the depreciation rules (such as when depreciation loading was in place) these regimes have not been included. This is because the regimes were considered separately in line with the particular industry characteristics. However, including these assets would be consistent with a broad-based business investment incentive. We estimate the cost of giving these assets the Investment Boost deduction at 20% is likely to be $20 million over the forecast period.[2]

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[1] Our advice is that Investment Boost should generally not be used to counteract effects of other policies. Investment Boost is being introduced as a permanent measure, therefore concessionary policies should be able to be adjusted in the future without impacting sensibility of Investment Boost applying to those assets. The tax system is more coherent if concessions that are no longer fit for purpose are addressed directly.

[2] Our fiscal cost estimates are based on Statistics New Zealand data for average mining capital flows in the last 10 years. We have assumed it contains minimal exploration expenditure given the ban on exploration in 2018.

Qualifying criteria

14. Investment Boost will be available for qualifying assets that are acquired on or after 22 May 2025. Ministers have agreed that Investment Boost will apply to assets that are new to the tax base (rather than new to a taxpayer). The most recent depreciation loading regime defined new-to-tax-base as excluding assets that have previously been used (or available for use) as depreciable property in New Zealand. This definition would mean the following assets would be eligible for Investment Boost:

- assets that are created or constructed in New Zealand (including from second-hand materials);
- imported assets (whether new or second-hand);
- assets that have only been held as trading stock; and
- assets that have previously been used only for personal use in New Zealand.

15. Officials have some concern with the final category of assets (assets previously used privately in New Zealand). We think that allowing Investment Boost for these assets may invite avoidance opportunities where an individual sells a privately owned asset (e.g., a motor vehicle) to their business in order to claim Investment Boost. This situation also creates compliance challenges where a taxpayer is unable to determine if a privately owned asset has previously been used as depreciable property in New Zealand. To address this, we recommend that assets must not have been used in New Zealand (other than as trading stock) in order to qualify for Investment Boost. This involves excluding the last category of assets from scope.

Improvements

16. For the avoidance of doubt, we recommend that improvements to depreciable property qualify in their own right for Investment Boost. Improvements are alterations to an asset that go beyond mere repairs and maintenance. They are a key component of capital stock and included in our costing assumptions. This means, for example, a building used as depreciable property from April 2025 would not be eligible for Investment Boost but an improved roof that was added to the building for use from June 2025 would be eligible for Investment Boost.

17. This recommendation differs from the design of the most recent depreciation loading regime which only applied to new assets and not improvements of those assets. However, the interim regime that existed in the early 1990s also gave loading treatment to improvements.

Other issues

18. Although Investment Boost can utilise many of the existing depreciation rules, there are also some places where new rules may need to be developed. We discuss the main features of the Investment Boost deduction that have been used for costing the policy before discussing three technical issues.

Timing of deduction

19. A key difference between Investment Boost and depreciation is that the entire Investment Boost deduction can be claimed in the income year the asset is first used (even if the asset is first used near the end of the income year). This differs from normal depreciation deductions which are pro-rated to the number of months in the income year that the asset is used for. If Investment Boost is 20%, the amount a business can deduct in the income year the asset is first used is:

- 20% of the cost of the asset

- plus, the amount of the usual depreciation deduction that would otherwise apply but calculated as if the cost of the asset were reduced by 20%.

20. Investment Boost does not change the total nominal amount that a taxpayer can deduct over the life of an asset. By claiming a larger deduction in the first year, the taxpayer will have smaller depreciation deductions in future years. However, earlier deductions provide a benefit due to the time-value of money.

Example 1: Investment Boost and depreciation
ABC company buys a new machine for $10,000 on 1 October 2025. ABC company expenses 20% of the cost of the machine immediately giving it a deduction of $2,000 for the 2025-26 income year. The remaining $8,000 is depreciated using the straight-line method at a rate of 10% per annum. The machine is used for 6 months in the 2025-26 income year so the company can take an additional deduction of $400 in that year ($8,000 x 10% x (6 / 12)). This means that the total deduction for the machine in the 2025-26 income year is $2,400. The company would continue to take deductions of $800 per annum until it writes the asset off.

Recovering excess deductions

21. Taxpayers can generally claim a loss if depreciable property is disposed of below its adjusted tax value (this loss is limited for buildings). If depreciable property is sold above its adjusted tax value, the difference is recognised as depreciation recovery income. This recognises that the taxpayer has claimed depreciation deductions more than the asset's true economic decline in value. This approach differs from other kinds of expenses which are not recoverable. We recommend that the Investment Boost deduction be recoverable when the asset is disposed of. It has been a key assumption in our costing estimates. We note that there may be a reasonably high chance of an asset giving rise to recovery income if it is disposed of early in its life.

Example 2: depreciation recovery income
Suppose ABC company sells the machine during the 2026-27 income year for $9,000. The machine has an adjusted tax value of $7,600 as the company has claimed $2,400 of deductions. Depreciation recovery income is the lesser of the gain ($1,400) and the depreciation deductions ($2,400). Therefore, $1,400 is recognized as income in the year of sale.

Opt-in or mandatory

22. We recommend that Investment Boost is treated as optional, and taxpayers can opt to depreciate their assets under the current rules instead if they wish. However, if the taxpayer opts to use Investment Boost, the deduction must be taken in the year the asset is first used. Treating the deduction as optional provides taxpayers with more flexibility. Taxpayers may opt not to take the deduction if they are concerned about having recovery income in the year that they dispose of the asset. A mandatory deduction may also act counter to the policy objective of encouraging investment if a taxpayer is wanting to defer depreciation deductions. For example, a company that is in loss may want to defer deductions in case there is a breach of shareholder continuity thereby losing those losses. Requiring the extra deduction may discourage firms from investing in a new asset.

Apportionment for mixed-use assets

23. It is not obvious how the Investment Boost deduction should be treated for assets that have mixed uses. For depreciation purposes, assets that are only partly used for business purposes (e.g., motor vehicles) can claim deductions in proportion to the use of the asset in business. This principle works when deductions are pro-rated to the number of months or days an asset is used for in an income year. However,

Investment Boost is a one-off deduction and cannot easily be linked to a time period, so it is not clear how it would be pro-rated. Pro-rating based on use in the year the asset is purchased would be the simplest option, but it creates some integrity concerns. For example, suppose a taxpayer buys a new car for use in March 2026. It would be problematic to apportion the Investment Boost deduction based on the few days the car was used for in March. There would be a strong incentive to only use the car for business purposes in the last few days of the month to get the entire Investment Boost deduction. The taxpayer may go on to use the asset mostly for personal use and the taxpayer is getting a deduction for an asset whose dominant use is private in nature. To address this, we recommend that the Investment Boost deduction is apportioned to anticipated business use over the first 12-months.

Example 3: mixed-use asset

Suppose a taxpayer buys a new car for use near the end of the 2025-26 income year. They determine over the next 90 days that they use the vehicle half the time for their taxi business and half the time for personal use. Only half of the expenses associated with running the car would be deductible expenses. Over the next 12 months, the taxpayer continues to use the car in a similar way. This apportionment would also determine the Investment Boost deduction. The taxpayer would be able to deduct half of the Investment Boost deduction (i.e., 10% of the cost of the car in the 2025-26 income year).

R&D expenditure

24. We recommend the Investment Boost deduction is not an eligible amount for the purposes of the Research and Development Tax Incentive (RDTI). We are concerned that allowing the RDTI to be claimed on the Investment Boost deduction effectively allows a credit on an amount that is not a real expense.[3] If Investment Boost is not an eligible amount, businesses purchasing assets for R&D will effectively have to choose between (1) depreciating an R&D asset under the normal rules and claiming the RDTI or (2) taking up investment Boost and not getting the RDTI on the Investment Boost portion the total deductions on the asset.

25. This recommendation is finely balanced, if you wish for Investment Boost amounts to be eligible for the RDTI, then this would ensure that assets used for R&D would continue to have the same level of advantage relative to non-R&D assets (although slightly more advantaged in absolute terms). This will increase the cost of the R&D tax credit by around $1m over the forecast period.

Avoidance

26. Although the most serious opportunities for avoidance are prevented by the recommendations discussed above, we recommend a range of integrity measures to ensure the policy works as intended. We will provide the Minister of Revenue with advice on these measures prior to LEG approvals.

[3] Another issue relates to clawback of the RDTI. Currently there is no means of clawing back an R&D tax credit if an asset is disposed of above its adjusted tax value. This is because the rules assume that there is an equal chance that an asset will be disposed of above or below its adjusted tax value. Because Investment Boost makes it more likely than not that a new asset will have a lower adjusted tax value than market value, assets are more likely to be disposed of above their adjusted tax value. Although the depreciation deductions are clawed back, the RDTI would not be.

Administrative implications

27. Investment Boost will have one-off administration costs that will be met within Inland Revenue baselines. A high-level timeline of the key dates for taxpayers is provided below:

- 22 May 2025 – Qualifying assets acquired from this day are eligible for Investment Boost.
- October 2025 – Inland Revenue updates online calculator and delivers content changes required in time for taxpayers to file their returns.
- 31 March 2026 – end of the 2025-26 income year for most taxpayers; this is the first income year that Investment Boost deductions can be claimed.
- July 2026 – returns due for most taxpayers without an agent

Next steps

28. If Cabinet decides to proceed with Investment Boost for Budget 2025, policy decisions taken in this report will be drafted in the Budget bill anticipated to be considered by LEG on 15 May 2025.