Tax measures for private sector aim to stimulate private sector investment

The Cook Islands Government is introducing a series of tax measures to help businesses make major investments as the country moves forward with its post-COVID-19 economic recovery.

Short term stimulus included in the first phase of the COVID-19 Economic Response Plan continues to support local businesses in the absence of tourism revenues. Moving forward, Government is now looking at recovery and helping businesses get on solid footing in advance of any potential easing of border restrictions.

To provide incentives for businesses to make capital acquisitions and improve productivity, the Government is rolling out three temporary asset depreciation initiatives that will apply from 1 July 2020 until 31 December 2021. They include:

A. 100 per cent first year depreciation deduction for new assets worth $500 to $50,000

B. 25 per cent first year depreciation deduction for new buildings and other capital works assets

C. 50 per cent first year depreciation deduction for environmentally sustainable capital assets (the Green Economy Incentive).

These measures are designed to stimulate investment in productive business assets, which are a key determinant of economic growth.

100 percent first year depreciation asset deduction

This measure will provide cash flow benefits for businesses that will be able to immediately deduct 100 per cent depreciation on qualifying assets valued between $500 and $50,000. The threshold applies on a per asset basis, which means eligible businesses can write-off multiple qualifying assets in the first year.

To illustrate the potential benefit of this measure, if a qualifying business purchased an asset worth $45,000 and with an effective life of 12 years, this would result in tax savings of over $8,600 in the current 2020 tax year - substantially more than existing arrangements using the straight line method.

25 percent accelerated depreciation for new buildings & capital works

Available on new buildings and other major capital works assets acquired after 1 July 2020, this measure further encourages business investment in productive assets to support a strong economic recovery.

This accelerated depreciation rate only applies to the first year of ownership of any qualifying asset. After the first year depreciation would be calculated using the standard depreciation rates. For companies looking to make large-scale investments, the potential tax savings are significant. As an example, consider a tourism accommodation provider making a $500,000 expansion with the new assets available for use on 1 March 2021.

Under ***existing*** tax arrangements, the company would claim a 2.5 per cent depreciation deduction in the first year (based on the asset's effective life of 40 years) of $10,417 (for the 10 months available for use in 2021).

Under the ***new*** measure, the company would claim a 25 per cent depreciation deduction of $104,167 in the 2021 tax year. This is $93,750 more than under existing tax arrangements. At a corporate tax rate of 20 per cent, the company will pay $18,750 less tax in the 2021 tax year. This will positively impact cash flow and lower the after-tax cost of the expansion to the business.

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