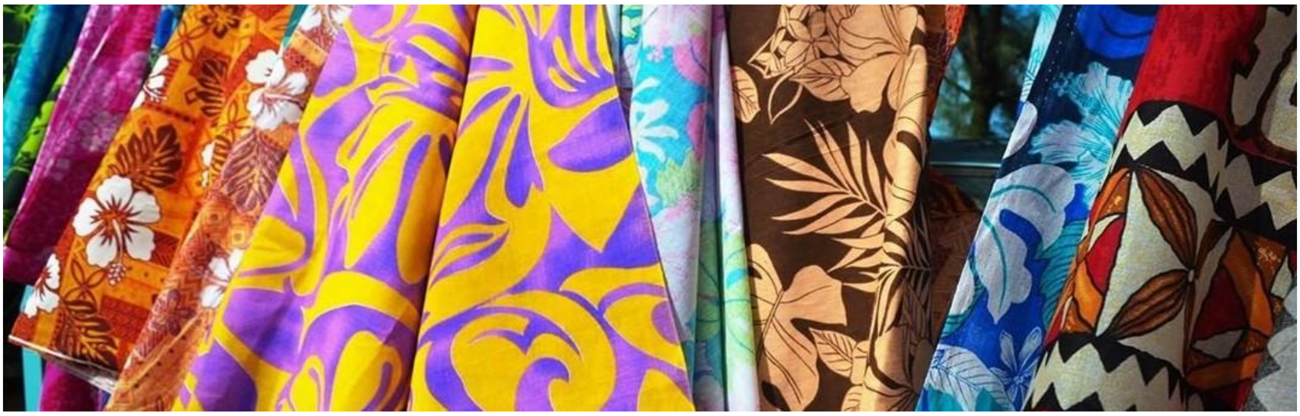
Phase II
FACT SHEET



COVID-19 Economic Response Plan
July 2020

Business Tax Measures

Accelerated depreciation to stimulate private business investment

Introduction

The Government is rolling out three temporary asset depreciation initiatives that will apply from 1 July 2020 until 31 December 2021:

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

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

C. 50 per cent first year depreciation deduction for sustainable capital assets.

These temporary tax measures will support local businesses to invest to help the economy withstand and recover from the economic impact of the Coronavirus pandemic. The focus of the 100 per cent first-year asset depreciation deduction is on boosting short-term investment in productive equipment assets. The accelerated depreciation on certain productive and environmentally sustainable assets is aimed at assisting with the longer-term economic recovery following the Coronavirus pandemic.

The three measures are described below, with more detailed information contained in Appendix 1.

A. 100 per cent first year depreciation asset deduction

Summary

The Government is introducing a **100 per cent** depreciation asset deduction for qualifying assets worth between $500 and $50,000. You must own the asset and it must be used, or be available for use, in deriving your assessable income during the period 1 July 2020 until 31 December 2021.[1]

Objective

The 100 per cent first year asset deduction will provide cash flow benefits for businesses by allowing them to immediately deduct qualifying assets, each costing less than $50,000. The measure will also stimulate investment in productive business assets, a key determinant of economic growth. The

[1] The current immediate write-off for assets that cost $500 or less remains unchanged. Current depreciation arrangements are available on the MFEM website: http://www.mfem.gov.ck/images/documents/RMD_Docs/Guides/DEPRECIATION_RATES_Updated_2018.pdf

threshold applies on a per asset basis, so from 1 July 2020 eligible businesses can write-off multiple qualifying assets in the first year.

Eligibility

This measure is open to all taxpayers conducting a business (e.g. sole traders, companies, partnerships etc.) in the Cook Islands that are producing assessable income in the Cook Islands and who are required to file an income tax return in the Cook Islands including that income, and who meet the following compliance requirements:

- all tax returns for the period 1 July 2020 to 31 December 2021 are filed on time; and
- any other outstanding tax returns relating to periods which end before 1 July 2020 are filed by 31 December 2021.

Qualifying assets

A qualifying asset is:

- any asset purchased for use in the Cook Islands after 1 July 2020 and prior to 31 December 2021 and is used, or made available for use, in the production of assessable income[2] prior to 31 December 2021, other than as trading stock, in the Cook Islands and has not been purchased from any person associated with the purchaser;[3] and
- that has a purchase value between $500 and $50,000.

Assets depreciated under this measure must be included in your business's fixed asset register/ depreciation schedule.

Timing

This measure applies from 1 July 2020 until 31 December 2021, for assets that are first used or made available for use, within this period.

How to apply

You will apply the asset deduction as part of your 2020 and/ or 2021 tax return, providing documentary evidence as required by Revenue Management Division (RMD).

If you have any queries about this measure please contact RMD by email at tax.info@cookislands.gov.ck and enter "**100 per cent asset deduction measure**" in the subject line. If you are unable to send an email, RMD can be contacted on +682 29365.

Budget impact

This measure is estimated to have a net cost of $3.6 million over the period 1 July 2020 to 31 December 2021.

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[2] A deduction will be only allowed to the extent that it forms part of the taxable activity. In other words, where the deduction is private in nature, it would not be deductible for tax purposes and must be excluded.

[3] A qualifying asset is 'available for use' when it is capable of being utilised to derive assessable income.

Example A — Farm business benefits from 100 per cent first year asset deduction

Taro Patch Farms Ltd (TP Farms) produces vegetables for the local and resort market in Rarotonga. On 1 August 2020, TP Farms purchases a tractor for $45,000, exclusive of VAT, for use in the farming business.

Under existing tax arrangements, TP Farms would depreciate the tractor using an effective life of 12 years. Using the straight-line method, TP Farms would claim a depreciation deduction of $1,594 (for the five months available for use) in the 2020 tax year.

Under the new first year asset deduction measure, TP Farms would instead claim an immediate asset deduction of $45,000 for the purchase of the tractor in the 2020 tax year, $43,406 more than under existing arrangements. At the company tax rate of 20 per cent, TP Farms will pay $8,681 less tax in 2020.

This will improve TP Farms' cash flow and help the business withstand and recover from the economic impact of the COVID-19 pandemic.

B. 25 per cent accelerated depreciation for new buildings & capital works

Summary

The Government is introducing accelerated depreciation deductions for certain productive business investments purchased and available for use between 1 July 2020 and 31 December 2021. The key features of the measure are:

- **benefit** — first year depreciation deduction of **25 per cent** of the cost of a qualifying asset, with current depreciation rules applying for the remainder of the asset life.
- **eligible businesses** — all taxpayers conducting a business (e.g. sole traders, companies, partnerships etc.) in the Cook Islands that are producing assessable income in the Cook Islands and who are required to file an income tax return in the Cook Islands including that income, and who meet the following compliance requirements:
    - all tax returns for the period 1 July 2020 to 31 December 2021 are filed on time; and
    - any other outstanding tax returns relating to periods ending before 1 July 2020 are filed by 31 December 2021.
- **qualifying assets** — new buildings and other capital works assets acquired after 1 July 2020 and that are available for use by 31 December 2021 will qualify for the 25 per cent first year depreciation deduction. This measure does not apply to:
    - existing assets;
    - existing assets purchased by a new owner;
    - capital improvements to existing buildings;
    - any non-building or capital works assets, such as motor vehicles; or
    - any assets that are amortised rather than being depreciated.

Objective

This time limited accelerated depreciation investment incentive will encourage business investment in productive assets and support a stronger economic recovery following the Coronavirus pandemic.

Eligibility

This measure is open to all taxpayers conducting a business (e.g. sole traders, companies, partnerships etc.) in the Cook Islands that are producing assessable income in the Cook Islands and who are required to file an income tax return in the Cook Islands including that income, and who meet the following compliance requirements:

- all tax returns for the period 1 July 2020 to 31 December 2021 are filed on time; and
- any other outstanding tax returns relating to periods ending before 1 July 2020 are filed by 31 December 2021.

Timing

This measure applies from 1 July 2020 until 31 December 2021, for qualifying assets purchased and that are available for use in this timeframe.

How to apply

You will apply the 25 per cent depreciation deduction to qualifying assets as part of your 2020 and/ or 2021 income tax return, providing documentary evidence as required by RMD.

If claiming in your 2020 tax return for an asset that is available for use in 2020, you can apply a 6 month deemed availability for use in the pro-rata deduction calculation. If claiming in your 2021 return for an asset, you must calculate the pro-rata deduction using the standard approach based on when the asset is available for use.

If you have any queries about this measure please contact RMD by email at tax.info@cookislands.gov.ck and enter "**25% accelerated depreciation measure**" in the subject line. If you are unable to send an email, RMD can be contacted on +682 29365.

Budget impact

This measure is estimated to have a net cost of $1.5 million over the period from 1 July 2020 to 31 December 2021.

Example B1: 2020 tax year — Resort business benefits from 25 per cent accelerated depreciation for resort expansion

Beachside Resorts Ltd (BRL) is a tourist accommodation provider in Aitutaki. BRL builds 3 new villas, imported in kit form from New Zealand, available for use on 1 September 2020 in the business at a construction cost of $500,000. BRL is not certified under the Mana Tiaki Eco Certification scheme.

Under existing tax arrangements, BRL could claim 2.5 per cent depreciation in the first year (based on the asset's effective life of 40 years), a value of $4,167 (for the four months available for use). Under the new measure, BRL can claim a depreciation deduction of $62,500 in the 2020 tax year, 25 per cent of the construction's value under the new measure (at the 6-month deemed pro-rata availability for use). This is $58,333 more than under existing tax arrangements.

At the company tax rate of 20 per cent, BRL will pay $11,667 less tax in the 2020 tax year (20 per cent of $58,333).

This will improve BRL's cash flow and lower the after tax cost of the new villas to the business.

Example B2: 2021 tax year — Resort business benefits from 25 per cent accelerated depreciation for resort expansion

Beachside Resorts Ltd (BRL) is a tourist accommodation provider in Aitutaki. BRL builds 3 new villas, imported in kit form from New Zealand, available for use on 1 March 2021 in the business at a construction cost of $500,000. BRL is not certified under the Mana Tiaki Eco Certification scheme.

Under existing tax arrangements, BRL could claim 2.5 per cent depreciation in the first year (based on the asset's effective life of 40 years), a value of $10,417 (for the 10 months available for use). Under the new measure, BRL can claim a depreciation deduction of $104,167 in the 2021 tax year, 25 per cent of the construction's value under the new measure (for the 10 months available for use). This is $93,750 more than under existing tax arrangements.

At the company tax rate of 20 per cent, BRL will pay $18,750 less tax in the 2021 tax year (20 per cent of $93,750).

This will improve BRL's cash flow and lower the after tax cost of the new villas to the business.

C. 50 per cent accelerated depreciation for sustainable investments

Summary

The Government is introducing accelerated depreciation deductions for sustainable business investments purchased and available for use between 1 July 2020 and 31 December 2021. The key features of the measure are:

- **benefit** — first year depreciation deduction of **50 per cent** of the cost of a qualifying asset, with current depreciation rules applying for the remainder of the asset life.
- **eligible businesses** — all taxpayers conducting a business (e.g. sole traders, companies, partnerships etc.) in the Cook Islands that are producing assessable income in the Cook Islands and who are required to file an income tax return in the Cook Islands including that income, and who meet the following compliance requirements:
  - all tax returns for the period 1 July 2020 to 31 December 2021 are filed on time; and
  - any other outstanding tax returns relating to periods ending before 1 July 2020 are filed by 31 December 2021.

- **qualifying assets first hurdle**:
  - *Tourism accommodation providers* — renovations to existing assets, new buildings, other capital works and equipment assets acquired after 1 July 2020 and installed by 31 December 2021.
  - *Other businesses* — new buildings, other capital works and equipment assets acquired after 1 July 2020 and installed by 31 December 2021.
- **qualifying assets second hurdle:**
  - *Tourism accommodation providers* — Mana Tiaki Eco Certificate awarded to the business and active as of 31 December 2020 for 2020 tax year claims and 31 December 2021 for 2021 tax year claims.
  - *Other businesses* — approval from the Green Panel classifying the asset as contributing to a more environmentally sustainable Cook Islands.
- **assets that do not qualify:**
  - existing assets purchased by a new owner; or
  - any assets that are amortised rather than being depreciated.

Objective

This time limited accelerated depreciation investment incentive will encourage business investment in environmentally sustainable assets and support a stronger and greener economic recovery following the Coronavirus pandemic.

Eligibility

This measure is open to all taxpayers conducting a business (e.g. sole traders, companies, partnerships etc.) in the Cook Islands that are producing assessable income in the Cook Islands and who are required to file an income tax return in the Cook Islands including that income, and who meet the following compliance requirements:

- all tax returns for the period 1 July 2020 to 31 December 2021 are filed on time; and
- any other outstanding tax returns relating to periods ending before 1 July 2020 are filed by 31 December 2021.

If you are a tourism accommodation provider, you also need to have an Eco Certificate issued by the Mana Tiaki scheme.

Mana Tiaki Eco Certification

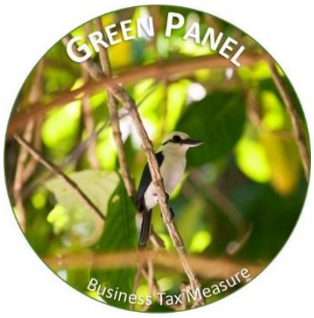
The Mana Tiaki Eco Certification scheme provides a trusted certification and endorsement system for tourism providers. The Mana Tiaki logo represents a commitment to best practice and more sustainable tourism and business practices in the Cook Islands.

The Mana Tiaki Eco Certification scheme runs parallel to existing tourism accreditation standards and supports and promote those businesses with more robust environmental policies and practices than standard accredited properties. The certification incorporates consideration of biodiversity, solid waste management, water and sanitation, energy efficiency and other ecosystem impacts into the accreditation process.

Tourism businesses can apply for certification through the website (https://www.manatiaki.org/). The certification process requires a business to fill in a self-assessment form and meet a minimum number of points. More detail, including certification fees, are available on the website.

The Mana Tiaki certification process will be applied to the entire business, not to the specific asset to which the business intends to apply the 50 per cent accelerated depreciation measure.

Green Panel



The Green Panel will be comprised of three members the Ministry of Finance and Economic Management, Cook Islands Tourism Marketing Corporation and the National Environment Service, with one officer each.

The Green Panel will apply a three-part assessment framework encompassing environmental, social, cultural and economic factors. A qualifying asset itself, the construction, use of the asset or any activity associated with the asset or its use, should:

- minimise any damage to the environment (flora, fauna, water, soils, energy use, contamination, etc.) and ideally benefit the environment in a positive way (e.g. through protection and/ or conservation);
- not harm, and may benefit the social structure or culture of the community where it is located; and
- be financially viable for the business concerned.

Green Panel decisions will be final.

Timing

This measure applies from 1 July 2020 until 31 December 2021, for qualifying assets purchased and that are available for use in this timeframe.

How to apply

You will apply the accelerated depreciation approach to qualifying assets as part of your 2020 and/ or 2021 income tax return, providing documentary evidence as required by RMD, including Mana Tiaki certification or Green Panel approval.

If claiming in your 2020 tax return for an asset that is available for use in 2020, you can apply a 6 month deemed availability for use in the pro-rata deduction calculation. If claiming in your 2021 return for an asset, you must calculate the pro-rata deduction using the standard approach based on when the asset is available for use.

If you have any queries about this measure please contact RMD by email at tax.info@cookislands.gov.ck and enter "**50% accelerated depreciation measure**" in the subject line. If you are unable to send an email, RMD can be contacted on +682 29365.

Budget impact

This measure is estimated to have a net cost of $3 million over the period from 1 July 2020 to 31 December 2021. This includes $40,000 to support Mana Tiaki administration costs.

Example C1 — New recycling business benefits from 50 per cent accelerated depreciation for sustainable investment

Plastic Fantastic Ltd (PFL) is a new plastic recycling business in Rarotonga, recycling plastic waste from Rarotonga and the Pa Enua into reusable plastic pellets. On 1 February 2021, PFL purchases and installs a small-scale plastic recycling plant at a total cost of $2 million.

Under existing tax arrangements, PFL could claim 10 per cent depreciation in the first year (based on the asset's effective life of 10 years), a value of $183,333 (for the 11 months available for use).

PFL applies to the Green Panel to qualify its investment as environmentally sustainable. The panel agrees and approves a Green Tick. Under the new measure, PFL can now claim a depreciation deduction of $916,667 million in the 2021 tax year, 50 per cent of the recycling plant's value. This is $733,333 more than under existing tax arrangements.

At the company tax rate of 20 per cent, PFL will pay $146,667 less tax in the 2021 tax year (20 per cent of $733,333).

This will improve PFL's cash flow and substantially lower the after-tax cost of the new recycling plant to the business.

Example C2 — Tourism business benefits from 50 per cent accelerated depreciation for new staff accommodation investment

Nukuroa Holiday Villas Ltd (NHV) is a tourism accommodation business in Mitiaro. On 1 June 2021, NHL builds a new staff accommodation block at a total cost of $150,000.

Under existing tax arrangements, NHV could claim 3 per cent depreciation in the first year (based on the asset's effective life of 33 years), a value of $2,625 (for the 7 months available for use).

NHV applies for, meets the minimum requirements, and is awarded a Mana Tiaki Eco Certificate on 30 June 2021. Under the new measure, NHV can now claim a depreciation deduction of $43,750 in the 2021 tax year, 50 per cent of the staff accommodation value. This is $41,125 more than under existing tax arrangements.

At the company tax rate of 20 per cent, NHV will pay $8,225 less tax in the 2021 tax year (20 per cent of $41,125).

This will improve NHV's cash flow and substantially lower the after-tax cost of the new staff accommodation to the business.

Appendix 1: Comparison of measures

	A. 100 per cent deduction for assets up to $50,000	B. 25 per cent deduction for new building assets	C. 50 per cent deduction for green assets
Target investment	Business equipment assets valued up to $50,000 e.g. tractor for a farming business; fishing boat & outboard motor for a commercial fishing business; new Information Communication Technology (ICT) equipment for an ICT business.	New capital & capital works-related investment in any industry e.g. construction of new office building, new factory, additional units to expand tourist accommodation resort.	*Tourism accommodation providers* – sustainable capital investment e.g. resort upgrades, staff accommodation, water, waste and sanitation improvements. *Other businesses* – assets that will contribute to the greening of the Cook Islands economy e.g. plastic recycling factory equipment.
Step 1: Business eligibility	All taxpayers conducting a business (e.g. sole traders, companies, partnerships etc.) in the Cook Islands that are producing assessable income in the Cook Islands and who are required to file an income tax return in the Cook Islands including that income, and who meet the following compliance requirements: • all tax returns for the period 1 July 2020 to 31 December 2021 are filed on time; and • any other outstanding tax returns relating to periods ending before 1 July 2020 are filed by 31 December 2021.		
Step 2: Asset qualification	*Qualifying assets:* • any asset purchased for use in the Cook Islands after 1 July 2020 and prior to 31 December 2021 and is used, or made available for use, in the production of assessable income prior to 31 December 2021, other than as trading stock, in the Cook Islands and has not been purchased from any person associated with the purchaser; and • that has a purchase value between $500 and $50,000.	*Qualifying assets:* • New buildings and other capital works assets acquired after 1 July 2020 and that are available for use by 31 December 2021.	*Qualifying assets:* • Tourism accommodation providers: ○ renovations to existing assets, new buildings, other capital works and equipment assets acquired after 1 July 2020 and installed by 31 December 2021. • Other businesses: ○ new buildings, other capital works and equipment assets acquired after 1 July 2020 and installed by 31 December 2021.

	A. 100 per cent deduction for assets up to $50,000	B. 25 per cent deduction for new building assets	C. 50 per cent deduction for green assets
	Assets that do not qualify: • existing assets; • capital improvements to existing buildings; • any assets that are amortised rather than being depreciated.	*Assets that do not qualify*: • existing assets; • existing assets purchased by a new owner; • capital improvements to existing buildings; • any non-building or capital works assets, such as motor vehicles; or • any assets that are amortised rather than being depreciated.	*Assets that do not qualify*: • existing assets purchased by a new owner; or • any assets that are amortised rather than being depreciated.
Step 3: Additional asset qualification steps for Green Measure	N/A	N/A	*Tourism accommodation providers:* • Mana Tiaki Eco Certificate awarded and active as at:[4] ○ 31 December 2020, for 2020 tax year claims; ○ 31 December 2021, for 2021 tax year claims. *Other businesses:* • Approval from the Green Panel classifying the asset as contributing to a more environmentally sustainable Cook Islands.[5]

[4] Application details and process available at https://www.manatiaki.org/.

[5] The Panel will apply a three-part assessment framework – environmental, social & cultural and economic. The qualifying asset itself, construction, use of the asset or any activity associated with the asset or it use, should:

- minimise any damage to the environment (flora, fauna, water, soils, energy use, contamination, etc.) and ideally benefit the environment in a positive way (e.g. through protection and/ or conservation);
- not harm, and may benefit the social structure or culture of the community where it is located; and

	A. 100 per cent deduction for assets up to $50,000	B. 25 per cent deduction for new building assets	C. 50 per cent deduction for green assets

Step 4: Application to RMD	In your 2020 and / or 2021 income tax return for your business you must:
	• list in your fixed asset register/ depreciation schedule the qualifying asset and value on which you intend to claim the 100 per cent first year asset depreciation deduction;
	• apply the 100 per cent deduction rate to the asset.
		In your 2020 and / or 2021 income tax return for your business you must:
		• list in your fixed asset register/ depreciation schedule the qualifying asset and value on which you intend to claim the 25 per cent first year asset depreciation deduction;
		• apply the 25 per cent deduction rate to the asset value to calculate the first year deduction amount;
		• if claiming in your 2020 tax return for an asset that is available for use in 2020, you can apply a 6 month deemed availability for use in the pro-rata deduction calculation;
		• if claiming in your 2021 return for an asset, you must calculate the pro-rata deduction using the standard approach based on when the asset is available for use;
		• provide any supporting information/ documentation required by RMD to substantiate your claim.
			In your 2020 and/ or 2021 income tax return for your business you must:
			• list in your fixed asset register/ depreciation schedule the qualifying asset and value on which you intend to claim the 50 per cent first year asset depreciation deduction;
			• apply the 50 per cent deduction rate to the asset value to calculate the first year deduction amount;
			• if claiming in your 2020 tax return for an asset that is available for use in 2020, you may apply a 6 month deemed availability for use in the pro-rata deduction calculation;
			• if claiming in your 2021 return for an asset, you must calculate the pro-rata deduction using the standard approach based on when the asset is available for use;
			• provide any supporting information/ documentation required by RMD to substantiate your claim including:
			  ○ your Mana Tiaki certificate if you are a tourism accommodation provider; or
			  ○ your Green Panel approval.

- be financially viable for the business concerned.

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