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One step forward, two steps back

National has announced its tax package today offering more generous cuts than Labour starting in April, but abolishing the Research and Development (R&D) tax credit, and reducing Government contributions to Kiwisaver to finance them. The New Zealand Manufacturers and Exporters Association (NZMEA) is backing tax cuts, but say that the proposed spending cuts to finance them are in the wrong areas.

NZMEA Chief Executive John Walley says, "Tax cuts are needed to stimulate the domestic economy, but the costs outweigh the benefits with this policy."

"The funding for the cuts has come from the wrong places. New Zealand was once at the bottom of the OECD in terms policy support for R&D spending, this change will put us back in last place. At a time when other countries such as Australia are about to increase their support for innovation New Zealand firms will once again be at a competitive disadvantage in this respect."

"Investment in the tradeable sector requires a long-term commitment so removing these incentives will hurt firms that have already priced in the tax credit. This sort of backtrack demonstrates a lack of understanding of the tradeable sector and causes Government distrust. The comment that, "evidence of real increases in R&D is harder to find" is daft given that the R&D credit applies for the first time in the 2008 income year. We have already sunk the setup costs, abolishing the credit now is extremely wasteful and confusing."

"Reducing the value of Kiwisaver also appears a short-term move at a time where our reliance on offshore credit has exposed our economy to the foreign financial crisis. Kiwisaver has come too late to avert this financial crisis, but increased levels of saving will reduce our susceptibility to future problems. The removal of the tax credit for the employers contribution to Kiwisaver puts yet more pressure on firms," says Mr. Walley.

"If there were two lessons to come out of this recession surely they would be a need for increased productivity and increased saving. This policy reduces the incentives to do both of these things. Unfortunately this is a case of one step forward and two steps back."