
Depreciation review decisions – a boost for wood processing

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The Government announced in December a two-stage programme to complete the full review of the depreciation regime.

The depreciation review is part of the Government's strategy to develop new enterprise and investment in New Zealand, and to promote economic growth.

The regime prior to December 16, 1991

Depreciation rates allowed on a wood processor's plant and equipment is governed by sections 108 and 113A of the Income Tax Act 1976, which allows for higher rates of depreciation the greater the number of shifts worked. Based on the average number of shifts worked within the sectors, rates of depreciation were 10 per cent diminishing value (DV)¹ for sawmillers, plywood and veneer producers, and 21 per cent DV for producers of other panel products, pulp and paper. In a number of instances these rates were thought to be below economic rates and rates allowed to our international competitors, such as Australia. This is likely to have impeded growth within the industry.

Interim regime

Because of the long time period before the full revision of the depreciation regime can be completed, an interim regime will add 25 per cent to all rates for new plant and equipment, including imported second-hand assets and assets utilised in forest development,² from December 16, 1991 to April 1, 1993.

The 25 per cent loading means that wood processors who previously depreciated their plant and equipment at 10 per cent DV are now allowed to do so at the higher rate of 12.5 per cent DV, and similarly those previously subject to the 21 per cent DV rate are now afforded the higher rate of 26.25 per cent DV.

These new rates are a positive boost to the industry's international competitiveness. For example, the interim loading

¹ Under the DV method the annual depreciation allowance is calculated as a percentage of the declining book value of the asset.

² These assets are listed in the 13th Schedule of the Income Tax Act 1976. Their treatment is governed by sections 128A, 128B and 128C of the Act.

brings the rates applicable to the sawmilling, plywood and veneer sectors close to Australian rates and accentuates the advantage that New Zealand's fibreboard, particleboard and pulp and paper sectors already enjoy over their Australian counterparts.

Long-term regime

The rates applying after April 1, 1993 will be set by the economic rates review currently being undertaken and by any loading determined.

The governing objective for setting depreciation rates in future will be international comparability. As the New Zealand wood processing industry is becoming increasingly export orientated, this is critically important. Prior to

the implementation of the interim regime, only one country in the world (Hungary) had a less generous depreciation policy than New Zealand. As far as the wood processing industry was concerned, New Zealand's rates allowed on sawmilling machinery were considerably less generous than those made available to our major competitors in the international market for softwood products, whilst the rates available to the pulping sector, for example, were about the middle of the range.

In the long term, economically determined rates based on international comparatives should improve both the quantity and the quality of investment in the future of the New Zealand forestry industry.

Crown Research Institute Boards appointed

Dave Allen

The appointment of the Boards of the ten new Crown Research Institutes were announced on December 5, 1991. The Boards will take responsibility for most of the Government scientific research, from July 1, 1992.

John Kneebone is chairperson of the Land Environment CRI and Professor Raymond Meyer is chairperson of the Forestry and Wood Products CRI.

John Kneebone is a farmer from Tirau who holds directorships including Affco NZ Ltd. Mr Kneebone was a member of the Beattie Committee on Science and Technology, President of Federated Farmers from 1974 to 1977, chairperson of the Soil Conservation and River Control Council from 1978 to 1986 and is a member of the Waitangi Tribunal.

Board members of the Land Environment CRI are: Terry Heiler, Director of Lincoln University's Agricultural Engineering Institute; William Lee, a farmer from Marlborough; Susan Mackin, Senior financial and economic manager for Fletcher Challenge; Guy Salmon, Director of the Maruia Society; and Michael Walker, a research fellow at the University of Auckland's Zoology Department.

Professor Raymond Meyer is the Dean of Engineering, Professor of

Mechanical Engineering and Assistant Vice Chancellor of the University of Auckland. Professor Meyer was a member of the Ministerial Task Group which recommended the CRIs setup, is a director of Electricorp, was chairperson of NZ Energy Research and Development Committee from 1981 to 1986, and was a member of the Forest Products Research Advisory Committee 1983-84.

Board members of the Forestry and Wood Products CRI are Richard Bellamy, Director of the University of Auckland's School of Biological Science and a director of the Auckland Bus Company; Doug Gartner, Financial Manager of the Taupo District Council; John Groome, Executive Chairman of Groome Poyry Ltd, forest and forest industry consultants; Cornelius La Grouw, Joint Managing Director of Lockwood Corporation, and Devon McLean, General Manager of Carter Holt Harvey Ltd's resources group for forestry and wood products.

These appointments are the first step toward the establishment of the CRIs. The boards will now be able to appoint chief executives. The chief executives will have to ensure the institutes are financially sound. The CRIs will have full commercial powers under the Companies Act.