Implications of the Investment Boost on deferred tax

KPMG Accounting Advisory Services

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Investment Boost

On 22 May 2025, the New Zealand Government introduced a new tax incentive called the Investment Boost. This initiative is designed to encourage businesses to invest in productive assets by allowing them to claim an additional tax deduction.

Under the Investment Boost, businesses can deduct 20% of the cost of a new asset from their taxable income in the year the asset is purchased or constructed. The tax deduction is in addition to any normal depreciation that may apply. The Investment Boost is claimed in the income tax return for the year of the asset acquisition, however it is important to note doing so is optional. A company can choose not to claim for the Investment Boost.

What can the incentive be claimed for?

To claim the incentive, the asset must be **new or new to New Zealand, available for the business to use on or after 22 May 2025, and depreciable for tax purposes.** The Investment Boost does not apply to Fixed Life Intangible Property (such as patents and copyright licenses). There is no limit on the number or value of assets that can be claimed. Some examples of assets include the following:

- Machinery and equipment.
- New commercial buildings, even though these buildings are not eligible for ongoing tax depreciation under current tax rules.
- Improvements to depreciable property (excluding residential buildings).
- Hotels, hospitals and rest homes.
- Primary sector land improvements.
- Assets arising from petroleum development expenditure and mineral mining development expenditure (except rights, permits or privileges).
- Mixed-use assets.

The Investment Boost applies only to assets purchased on or after 22 May 2025. In the case of buildings under construction, the building itself must be available for use on or after 22 May 2025 to be eligible, construction can have started earlier the focus is on when it is available for use.

How can KPMG help?

- Advise on or review the required system setup so they are compliant with the new rules and have the required data points for the relevant calculations on disposal.
- Post-implementation review to ensure the calculations are in line with the new rules.
- If your system is not capable of handling the new calculations, we can assist with the on-going maintenance of your Tax fixed asset register.
- Assist with the preparation or review of deferred tax on assets where the Investment Boost has been claimed.

Compliance planning considerations

ERP and accounting systems

Many New Zealand ERP and accounting systems are not currently configured to simply apply the 20% Investment Boost or adjust the tax cost base without some manual intervention.

You should consider whether your systems can:

- Apply the 20% deduction in the acquisition year.
- Adjust the cost base and current year depreciation accordingly (especially important for Straight-line depreciation).
- Track depreciation recovery income if assets are sold above the adjusted tax value.

Key accounting impacts and considerations

Substantial enactment

Deferred tax assets and liabilities are measured based on:

- The expected manner of recovery (asset) or settlement (liability).
- The tax rate expected to apply when the underlying asset (liability) is recovered (settled), based on rates that are enacted or substantively enacted at the reporting date. [NZ IAS 12.47, 51]

The Investment Boost was announced as part of the 2025 National Budget, and the legislation went through its third reading in Parliament on 22 May 2025. In our view therefore the change in tax law was substantially enacted from 22 May 2025. This means that any current and deferred tax implications will be reflected in the financial statements of affected entities from this date.

How is the tax base of an asset impacted by enactment of the Investment Boost?

The tax base of an asset is the amount that will be deductible for tax purposes against any taxable economic benefits that will flow to an entity when it recovers the carrying amount of the asset. The impact of the Investment Boost deduction on the tax base of an asset will depend on whether an asset was depreciable for tax purposes prior to the introduction of the Investment Boost deduction.

The measurement of deferred tax assets or liabilities will reflect an entity's intention regarding the manner of recovery of an asset or settlement of a liability [NZ IAS 12.51]. In this case an entity can elect to apply the Investment Boost deduction. Therefore, the measurement of deferred tax arising from the Investment Boost will depend on whether an entity intends to claim the Investment Boost deduction.

Depreciable assets

The Investment Boost does not alter the tax base of depreciable assets. Under the scheme, businesses are entitled to an additional deduction equal to 20% of the cost of eligible new assets in the year of acquisition.

This deduction is claimed alongside the standard depreciation deduction, allowing businesses to accelerate depreciation by taking a larger deduction in the year the asset is purchased. Despite this accelerated deduction, the total amount deductible over the asset's useful life remains unchanged, and therefore the tax base continues to reflect the full recoverable amount.

Management normally needs to demonstrate its intent clearly in order for it to be reflected in the determination of the tax base. However, in our view, it is not always required that the entity perform a formal act demonstrating this intention. Instead, depending on the facts and circumstances, we believe that it may be sufficient to assume that management will act in the most economically advantageous way.

Commercial and industrial buildings

If an entity **does not intend** to claim the Investment Boost, the tax base remains nil, as no deductions are permitted under current tax law.

If an entity **does intend** to claim the Investment Boost, the tax base will be equal to the amount deductible under the scheme i.e., 20% of the cost of the building. This deduction is only available in the year of acquisition. From the following year onward, no further deductions are permitted, and the tax base reverts to nil.

What is the impact on the initial recognition exemption when the Investment Boost is enacted in May 2025?

Deferred tax is not recognised for certain temporary differences that arise on the initial recognition of assets and liabilities. This is known as the Initial Recognition Exemption (IRE). Where the IRE was applicable it will continue to apply to commercial and industrial buildings. However, if management intends to claim the Investment Boost, the IRE is reduced in the year the deduction is claimed. The reduction is equal to the amount of the Investment Boost claimed.

Where in the financial statements is the impact of the change in tax base, as a result of the Investment Boost, recognised?

The impact of the change in tax base (and hence in the amount of deferred tax arising) resulting from the Investment Boost is recognised in the statement of profit or loss and other comprehensive income as part of income tax expense. The corresponding effect is presented in the statement of financial position as a deferred tax asset or liability, depending on the nature of the temporary difference arising from the change in tax base.

The examples on the following pages illustrate the impact of claiming the Investment Boost on certain assets.

Worked examples

Changes to depreciation rules

Basic fact pattern

- Entity A has a balance date of 30 June.
- Tax law reducing the depreciation rate on commercial and industrial buildings to 0% was substantively enacted on 26 March 2024. For guidance on the removal of tax depreciation on commercial buildings please refer to the KPMG publication: Removal of tax depreciation deduction for commercial buildings.
- The Investment Boost tax deduction was substantively enacted on 22 May 2025.
- The Investment Boost is claimed in the 2025 tax return which is submitted 31 March 2026.
- The tax rate applied is 28%.
- Buildings are depreciated for accounting purposes at 2% on a straight-line basis (50-year useful life).
- None of the buildings were acquired as part of a business combination.
- The buildings are accounted for using the cost model under NZ IAS 16. Their carrying value is expected to be recovered entirely through use.

Scenario 1 – Building 1

Entity A incurred $50 million of costs to construct a commercial building. Construction commenced in April 2024 and the building was completed and available for use on 1 June 2025.

The table below summarises the spend progress on the building. Entity A has opted to claim the Investment Boost on Building 1.

How is the accounting for the deferred tax impacted?

Date	WIP ($m)	Capitalised to PPE
30 June 2024	10,000,000	
21 May 2025	38,000,000	
22 May 2025	2,000,000	
1 June 2025		50,000,000

Answer A

Entity A elects to claim the Investment Boost

Under NZ IAS 16 *Property, Plant and Equipment*, the costs incurred initially to construct a building are evaluated under the recognition principle at the time they are incurred. Accounting depreciation begins when the building is available for use. As such depreciation only commences on 1 June 2025 when the building is available for use.

As this is a commercial building constructed after 24 March 2024 there is normally no tax depreciation available. However as the building became available for use after 22 May 2025, Entity A can claim the Investment Boost. The tax base on initial recognition of the asset being WIP on 30 June 2024 is Nil, because there was no Investment Boost at that date.

Following the enactment of the Investment Boost, Entity A becomes eligible to claim a 20% deduction on the capital cost of the building in the year it is available for use, being the year ended 30 June 2025. At that point, the tax base increases to $10 million ($50m *20%), and the IRE is reduced by an amount equal to the deduction claimed. However, because the IRE still applies even though it has been reduced, no deferred tax is recognised at that point.

Once the 20% deduction is claimed, no further tax deductions are available for the asset. As a result, the tax base reverts to nil, creating a temporary difference.

Building 1	Accounting base ($m)	Tax base ($m)	Temporary difference ($m)	IRE ($m)	Adjusted temporary difference	(DTA)/DTL ($m)	Tax expense/ (income)
	A	B	C=A-B	D	C-D		
30 June 2024	10.000	0	10.000	10.000	0	nil	nil
21 May 2025	48.000	0	48.000	48.000	0	nil	nil
Work in progress incurred of $10m by 30 June 2024. From 1 July 2024 to 21 May 2025 additional work in progress of $38m is incurred. No tax deduction is allowed hence there is a total temporary difference of $48m. The initial recognition exemption applies, and no deferred tax is recognised.							
1 June 2025	50.000	10.000	40.000	40.000	0	nil	nil
Additional work in progress to 1 June is $2m. The Investment Boost is passed into law. Given it is financially advantageous management decide to claim the Investment Boost tax deduction of $10m (50m*20%) – hence the tax base of the asset increases to $10m. However, the initial recognition exemption applies (reduced), and no deferred tax is recognised.							
30 June 2025	49.917	0	49.917	39.933	9.983	2.795	2.795
Investment boost deduction is claimed in the first year reducing the tax base of the building to nil and a temporary difference arises. The initial recognition exemption applies, but only to the extent it remains available. In this case a deferred tax liability is recognised to the extent the temporary difference exceeds the available IRE.							
30 June 2026	48.917	0	48.917	39.133	9.783	2.739	(0.056)
The temporary difference decreases due to the difference between accounting depreciation and the amortisation of the IRE.							
30 June 2027	47.917	0	47.917	38.333	9.583	2.683	(0.056)
IRE reduces over time – In this example it is reduced over the remaining useful life of the building at the time the tax deduction is removed (40/50 years). **Other methods are possible.**							

Answer B

Entity A elects not to claim the Investment Boost

As this is a commercial building constructed after 24 March 2024 there is normally no tax depreciation available. However as the building became available for use after 22 May 2025, Entity A has the option to claim the Investment Boost. Since Entity A has elected not to apply the Investment Boost, no tax deductions are available on the building in future years. As a result the tax base remains as nil.

The building qualifies for the initial recognition exemption, therefore no deferred tax is recognised.

Building 1	Accounting base ($m)	Tax base ($m)	Temporary difference ($m)	IRE ($m)	Adjusted temporary difference	(DTA)/DTL ($m)	Tax expense/ (income)
	A	B	C=A-B	D	C-D		
30 June 2024	10.000	0	10.000	10.000	0	nil	nil
21 May 2025	48.000	0	48.000	48.000	0	nil	nil
Work in progress incurred of $10m. No tax deduction is allowed hence there is a temporary difference of $10m. The initial recognition exemption is allowed, and no deferred tax is recognised. From 1 July 2024 to 21 May 2025 additional work in progress of $38m is incurred.							
27 May 2025	50.000	0	50.000	50.000	0	nil	nil
Additional work in progress to 27 May is $2m, management opt not to claim for the Investment Boost as such the tax base remains as nil.							
30 June 2025	49.917	0	49.917	49.917	0	nil	nil
IRE reduces over time – In this example it is reduced over the remaining useful life of the building at the time the tax deduction is removed (50/50 years). **Other methods are possible. No deferred tax is recognised.**							
30 June 2026	48.917	0	48.917	48.917	0	nil	nil
30 June 2027	47.917	0	47.917	47.917	0	nil	nil

Scenario 2 – Building 2

Building purchased after 22 May - Investment Boost claimed

Entity A purchased a commercial building for $50 million on the 25th of May 2025. The building was available for use by 1 June 2025. Entity A has opted to claim the Investment Boost tax deduction on Building 2.

▶ **What is the deferred tax treatment?**

Investment Boost is claimed

Building 2	Accounting base ($m)	Tax base ($m)	Temporary difference ($m)	IRE ($m)	Adjusted temporary difference	(DTA)/DTL ($m)	Tax expense/ (income)
	A	B	C=A-B	D	C-D		
25 May 2025	50.000	10	40.000	40.000	0	nil	nil
The building is purchased, and management make the decision to claim the Investment Boost which results in a tax deduction of $10m. However, the initial recognition exemption applies, and no deferred tax is recognised.							
30 June 2025	49.917	0	49.917	39.933	9.983	2.795	2.795
Investment boost is claimed in the first year reducing the tax base of the building to nil and a temporary difference arises. The initial recognition exemption applies, but only to the extent it remains available. In this case a deferred tax liability is recognised to the extent the temporary difference exceeds the available IRE.							
30 June 2026	48.917	0	48.917	39.134	9.784	2.379	(0.056)
A small decrease in the temporary difference arises due to the difference between accounting depreciation and the amortisation of the IRE.							
30 June 2027	47.917	0	47.917	38.333	9.583	2.683	(0.056)
IRE reduces over time – In this example it is reduced over the remaining useful life of the building at the time the tax deduction is removed. (40/50 years). **Other methods are possible.**							

Purchase of machinery after 22 May 2025 which is deductable for tax purposes

Entity A purchases machinery on 1 June 2025 at a cost of $200 million. The accounting depreciation rate is 35% per annum calculated on a straight-line basis, while the tax depreciation rate is 40% per annum also on a straight line basis. Entity A has elected to apply the Investment Boost on the purchased machinery.

Answer

As Entity B has elected to apply the Investment Boost, the tax base used to calculate annual tax depreciation is reduced by 20% of the asset's cost. This means annual tax depreciation is calculated on 80% of the original cost as the remaining 20% is claimed as a tax deduction in year 1.

Applying the Investment Boost results in a higher initial deferred tax liability due to the accelerated depreciation deduction in Year 1. When the Investment Boost is claimed, the deferred tax liability in Year 1 increases to $11.060m, compared to just $233k when it is not claimed.

However, this upfront increase is offset in subsequent years. In Years 2 and 3, the deferred tax expense recognised in the current tax calculation is lower for entities that applied the Investment Boost as compared to those that did not. For example, in those years, the entity records a tax income of $1.680m on the deferred tax movement, whereas an entity that did not apply the Investment Boost incurs tax expenses of $2.800m.

Investment Boost is claimed

Machinery	Accounting base ($m)	Tax base ($m)	Temporary difference ($m)	IRE ($m)	Adjusted temporary difference	(DTA)/DTL ($m)	Tax expense/ (income)
	A	B	C=A-B	D	C-D		
1 June 2025"	200.000	200.000	0	0	0	nil	nil
Tax deduction is permitted for the full amount hence there is no temporary difference and no deferred tax is recognised.							
30 June 2025"	194.67	154.667	39.500	0	39.500	11.060	11.060
Tax depreciation after deducting the investment boost of $40.000 is calculated as $5.333 ((200.000-(200.000*20%))*40%/12. Total tax deduction is therefore $45.333. Deferred tax is calculated on the resulting temporary difference. Investment boost of $40.000 (200.000*20%) is claimed in the income tax return in the year of purchase.							
30 June 2026"	124.167	90.667	33.500	0	33.500	9.380	(1.680)
Tax depreciation for the year is $64.000 ($200.000-$40.000)*40%.							
30 June 2027"	54.167	26.667	27.500	0	27.500	7.700	(1.680)
30 June 2028	0	0	0	0	0	nil	nil

Investment Boost is not claimed

Machinery	Accounting base ($m)	Tax base ($m)	Temporary difference ($m)	IRE ($m)	Adjusted temporary difference	(DTA)/DTL ($m)	Tax expense/ (income)
	A	B	C=A-B	D	C-D		
1 June 2025	200.000	200.000	0	0	0	nil	nil
Tax deduction is permitted for the full amount hence there is no temporary difference and no deferred tax is recognised.							
30 June 2025	194.167	193.333	833	0	833	233	233
Tax depreciation is calculated as $6,667 (200,000*40%/12). Deferred tax is calculated on the resulting temporary difference.							
30 June 2026	124.167	113.333	10.833	0	10.833	3.033	2.800
Tax depreciation is calculated as $80,000 (200,000*40%). Deferred tax is calculated on the resulting temporary difference.							
30 June 2027	54.167	33.333	20.833	0	20.833	5.833	2.800
30 June 2028	0	0	0	0	0	nil	nil

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