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SUSPENSION OF INVESTMENT ALLOWANCE ON PLANT  
AND EQUIPMENT USED IN MANUFACTURING

Statement by the Prime Minister, Mr. John Gorton

Parliament will shortly be asked to approve legislation suspending, as from today, the investment allowance on manufacturing plant and equipment.

The income tax law at present permits a special deduction of 20 per cent of capital expenditure on new plant and equipment used in manufacturing, the deduction being made from the income of the year in which the plant is first used or installed for use. This investment allowance is supplementary to the normal deductions for depreciation; over the scheduled life of the plant or equipment it results in total deductions for taxation purposes of 120 per cent of the installed cost of the plant and equipment concerned.

The investment allowance for manufacturing was a concession introduced in February 1962 at a time of declining employment and slow economic activity. It was one of a series of measures designed to stimulate demand and it was particularly directed to encouraging expenditure on equipment and re-equipment of manufacturing industries, then at a low ebb. The allowance was extended in 1963 to plant and equipment used in primary production.

In current economic circumstances, with heavy private investment in non-farm plant and equipment rising at a rate in excess of 20 per cent, it is inappropriate to continue this special incentive for investment in manufacturing plant and equipment. Accordingly, the Government has decided to suspend as from today the operation of section 62AA of the Income Tax Assessment Act which provides the investment allowance on manufacturing plant and equipment. The decision will not affect the allowance for plant and equipment used in primary production, which will still apply.

The legislation will include some provisions of a transitional nature to cover plant acquisitions straddling the suspension date. The Government feels that some transitional provisions should be included to cover expenditure on plant where the contract for the supply of the plant was entered into on or before today. Details of the transitional arrangements will be announced later.

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CANBERRA  
3 February 1971