

Wellbeing Budget 2020

Rebuilding Together



In the absolutely unprecedented times of this global COVID-19 pandemic, Minister of Finance Grant Robertson has presented his third budget. Budget 2020 is unique in that its almost sole focus is on “rebuilding together” and outlines the Government’s proposed steps on the long road back to economic normality – whatever that may be. COVID-19 has changed the lives of all New Zealanders and with an election looming, only time will tell if the Government’s plan is fit-for-purpose in the eyes of voters.

In 2019, the Government delivered its first “Wellbeing Budget”. This signaled a programme of change and introduced Budget decisions based on what matters to New Zealanders. With the outbreak of COVID-19, New Zealand faces health and economic challenges unparalleled for 100 years. Already there has been enormous social and economic disruption, requiring the Government to ‘put on ice’ some initiatives to rightly focus on what matters now – keeping people in jobs and ensuring the economy restarts as quickly as possible.

Economic outlook

Before the COVID-19 pandemic, New Zealand’s GDP growth was higher than many of our international peers. Unemployment was at historically low levels and inflation was within the target range. Government debt was below 20% and previous surpluses enhanced the balance sheet.

New Zealand, along with the rest of the world, now faces the largest economic shock not seen in peacetime since the Great Depression of the 1930s, with annual global growth expected to fall to minus 3%. While we may have acted swiftly to contain the virus and cushion the economic blow, the reality is the impact on parts of our domestic economy has already been severe. For example, the number of tourists entering the country in April was basically zero.

Despite the measures announced previously, unemployment is still expected to rise to 9.8% by September 2020.

Last year’s \$7.4 billion Government surplus has evaporated into a deficit of \$28 billion, with similar projections over the coming years. Debt peaks at just over \$200 billion or 53.6% of GDP, with a forecast surplus only returning in 2028.

COVID-19 Response and Recovery Fund

Budget 2020 formally establishes a \$50 billion COVID-19 Response and Recovery Fund (CRRF). This is the single largest investment set aside in New Zealand's history. It builds on the \$12.1 billion package announced at the start of lockdown - which included a wage subsidy scheme, increased benefit support and an initial boost for health services.

The CRRF features \$13.9 billion already committed by the Government in previously announced initiatives, including further funding for the wage subsidy scheme, the essential workers' leave scheme, SME support measures, the Business Finance Guarantee Scheme, and additional packages to support the health response.

Yesterday's budget includes a further \$15.9 billion to provide additional support to those most affected by COVID-19, to kick-start the economic recovery and as a first step to "rebuilding together".

This leaves \$20 billion for the Government to spend on their "rolling maul" of policies as the economic impacts unfold. Given the timeframes, it is probably reasonable and prudent that a detailed plan has not been announced for this remaining expenditure. However, with an election just around the corner, New Zealanders may well have differing views on the motive for holding this cash back, depending which side of the political divide they affiliate with.



Business support measures

1) Targeted extension to Wage Subsidy Scheme

The introduction of the Wage Subsidy Scheme on the eve of lockdown has been lauded for quickly getting cash into the hands of businesses and workers. For many though, the struggles resulting from COVID-19 are far from over. Recognising this, the budget provides a targeted extension to the Wage Subsidy Scheme. From June 10, business that have suffered a 50% reduction in turnover in the 30 days before application as compared to 2019, will be entitled to the wage subsidy for a further eight-week period. High growth and new firms will also be eligible.

The Government is also expanding the eligibility to the Wage Subsidy Scheme to include pre-revenue R&D start-up firms, recognising their importance in the economic recovery.

Applications for the extended subsidy by businesses which meet the new eligibility criteria can be made through MSD's website.

2) Loan scheme for R&D programmes

A \$150 million short-term temporary loan scheme will be launched to incentivise businesses to continue R&D programmes that may be at risk due to COVID-19. The loans will provide one-off finance and will be administered by Callaghan Innovation.

3) Boost for Trade

"Budget 2020 recognises the importance of Kiwi exporters as part of the economic recovery, with investment in practical measures to help them re-engage with international markets, and support firms looking to export for the first time," Trade and Export Growth Minister David Parker said.

A \$216 million package from the CRRF is backing Kiwi exporters to leverage off the success of our response to COVID-19. This will allow NZTE to expand the scope and intensity of support it provides to exporting firms. This includes increasing activity for New Zealand firms in priority markets and expanding the digital services available for firms.

4) Supporting SMEs in a digital economy

Building off advice from the Small Business Advisory Council, \$10 million has been allocated to support small businesses to improve their e-commerce service offerings, plus incentives/grants to encourage e-commerce adoption. Further support is also being provided for business advice, e-invoicing, Business Connect and the Better for Business programmes.



Investing in New Zealanders

Environment Jobs Package

Budget 2020 provides \$1.1 billion to create 11,000 environment jobs in the regions. This initiative not only supports people made unemployed because of the COVID-19 pandemic but also enhances the environment for generations to come. The new roles include regional environmental projects, biosecurity, weed and pest control and additional DOC jobs.

Free trades training to support Kiwis into work

A record \$1.6 billion investment has been made in a Trades and Apprentices Package to provide opportunities for New Zealanders of all ages to receive trades training. This includes financial support for businesses to retain their apprentices, free apprenticeships and training in targeted critical industries, and funding for increased enrolments in tertiary education and training.

Tourism Sector Recovery plan

An initial investment of \$400 million to a targeted Tourism Recovery Fund, alongside the extension of the Wage Subsidy Scheme and a domestic tourism campaign, aims to assist the tourism industry recover and restart while border restrictions remain for the foreseeable future.

This funding will support the first stages of an action plan agreed with the industry and includes a programme to support businesses plan for the future, a fund to ensure key tourism assets survive, a domestic tourism marketing campaign and a public/private taskforce to shape the future of the industry.

Other support announcements

- A **\$485 million** package is earmarked to aid Māori recovery from COVID-19 and includes a range of measures to support Whānau through the recovery period. This is in addition to other significant investment in Budget 2020 for Maori initiatives.
- A **\$195 million** Pacific recovery package of initiatives to support Pacific communities affected by COVID-19, focusing on programmes to lift skills and support employment.
- **\$79 million** boost to social service providers.
- **\$36 million** in grants for community groups.
- **\$22 million** for family violence services.
- **\$20 million** to ease impacts of COVID-19 on rural and fishing communities.
- **\$20 million** tertiary student hardship fund for 2020.
- **\$15 million** boost to Fruit in Schools and digital sales platforms for food producers.

Other highlights

- **\$3.9 billion** to ensure all DHBs continue to meet their communities' needs.
- **\$1.1 billion** to improve transport across New Zealand, including replacing ageing ferries and rail infrastructure.
- **\$5 billion** to build 8000 additional public and transitional homes, boosting construction activity.
- **\$414.2 million** for the Early Learning Sector, including funding subsidies, pay increases for educators, additional support for home-based educators and play centre sustainability.
- **\$246.1 million** for community services, including a significant funding boost for family violence service providers.
- **\$193.5 million** to support farmers through the eradication of *Mycoplasma Bovis*.
- **\$47.8 million** to replace ageing communications capabilities for Police, Fire and Ambulance and support healthier, safer and more connected communities.



What about tax?

Perhaps somewhat surprisingly, and likely much to the frustration of the business community, any mention of tax relief or concessions is noticeably absent in Budget 2020.

There has already been a number of tax measures announced in response to COVID-19, including the tax loss carry back scheme, reinstatement of commercial building depreciation and increase to low-value asset threshold. Some further policy developments have been signalled for later in the year. In one new announcement – somewhat light on detail - businesses will be able to claim a tax deduction for unsuccessful or abandoned assets.

Government has affirmed in the budget that New Zealand's tax system is well-positioned to support us through COVID-19. However, don't expect to see tax cuts before the election either. The Minister of Finance, in his closing remarks to Parliament, said; "this government will never put the burden of those [difficult] choices on those who can least afford it. We will not cut the services that are their lifelines. We will not preach austerity, but line our pockets with tax cuts."

Obviously, with Government debt set to reach record levels in these unprecedented times, taxpayers will wonder how this debt will ultimately be repaid. If the country cannot stimulate the economic growth to boost tax revenue, it doesn't take much deduction to conclude increasing taxes is one of the few levers any future Government could pull.



Where to from here?

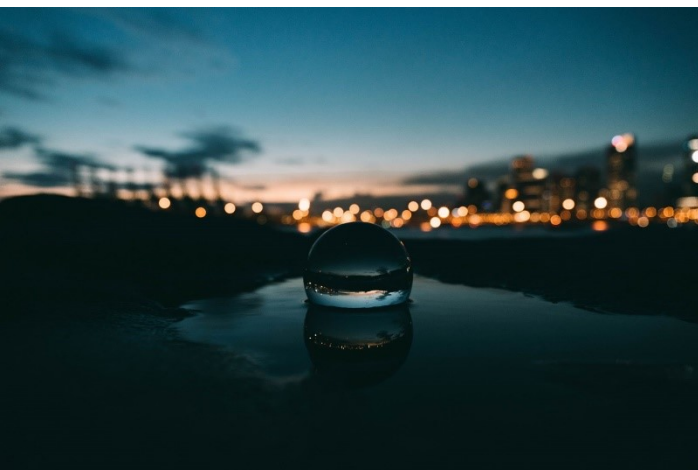
Just as every New Zealander is now feeling the pinch, most would also feel some sympathy with the position the Government finds itself in. There is no “play book” for dealing with the COVID-19 pandemic.

While the original version of Budget 2020 would have looked extremely different to that presented yesterday, only time will tell whether the return on investment for New Zealand and the generations to come is justified.

As commentators continue to say, the shocks from COVID-19 are far from over and Grant Robertson appeared ready to concede that the \$50 million COVID-19 Response and Recovery Fund may just be a down payment. Massive domestic and global economic disruption will play out over the next few years but to put into perspective yesterday’s announcements, they equate to roughly 20% of the current New Zealand economy, a gargantuan investment by ordinary standards. The only silver lining can be the low interest rate environment we are in.

Putting political preferences to one side, all New Zealanders want some common outcomes on the other side of the COVID-19 pandemic: meaningful jobs for all and a positive legacy for the next generation. However, people will have differing views on whether or not this budget is a robust, long-term plan with the level of detail to thrive on the other side.

It remains to be seen what levels unemployment will reach, how many businesses will survive and how history will judge New Zealand’s economic efforts against our extraordinary health and social efforts.



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