CUFFS
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& Business Advisors

2019 BUDGET ALERT

The lead-up to the Wellbeing Budget has been well signposted even if the track's been somewhat muddied by drama. It's a bold step to try and quantify progress in other than strictly financial terms. The brief is to implement change and manage the country's finances.

The focus is on 5 priority areas:

- taking mental health seriously
- improving child wellbeing
- supporting Māori and Pasifika aspirations
- building a productive nation, and
- transforming the economy

Mental health initiatives include a new frontline service for mental health, funding boosts to existing suicide prevention services, more nurses in secondary schools and 1,044 new Housing First places to tackle homelessness.

Child wellbeing measures see a $320m package to address family and sexual violence, assisting young people out of state care into independent living, increased funding to decile 1-7 schools to take financial pressure off parents, indexing main benefits to wage growth from April 2020, meaning benefit payments will rise in line with wages - not inflation.

Māori and Pasifika are supported by a major boost for Whānau Ora (family health) focusing on health and reducing reoffending, support for the Pacific Employment Support Service and Te Reo and Pacific languages and a $12m programme targeting rheumatic fever.

While it's hoped that increasing health and wellbeing in New Zealand will foster increased prosperity, the business community gaze will be on building a productive nation, and transforming the economy, as well as on tax policy ahead. Hence why we have focused on these area's below.

Cuffs Commentary: Arguably the budget has probably done little in regard to building a productive nation, or transforming the economy, but read below and make your own judgement on that.

Building a productive nation

Innovation is seen as the key to assist New Zealand industries in the transition to an economy high in productivity but low in emissions. The challenge is for businesses to be more innovative and New Zealanders to adapt to changing job markets.

The R & D legislation born out of last year's budget has passed and it's up to Kiwi businesses to take up opportunities there. The Budget allocates $157m to support the "Commercialisation of Innovation" package of initiatives to invest in research and science. An "Innovative Partnerships Programme" seeks to attract globally leading firms and innovators. "Business Connect" establishes a cross-agency digital platform of business-focused services.

New start-up businesses have been spotlighted as likely to run with some of these initiatives, the Minister for Research, Science and Innovation calling them "the ultimate champions of innovation that often introduce more radical, disruptive innovations than more established firms".

But how does a start-up expand? The Budget establishes a $300m fund to support venture capital investments taking "mid-size" start-up businesses to the next level. This is designed to stimulate growth and help businesses remain onshore, reducing pressure on companies to sell prematurely to overseas buyers.

The initiatives also fund vocational education and training. These include reforms to boost apprenticeships and trade training, increased subsidies to Tertiary Education Organisations, wage subsidies, and funding for an "Industry 4.0" demonstration network to help businesses embrace smart technologies and data driven solutions.

Cuffs Commentary: There is very little in this for 99.9% of businesses. This will more likely apply to medium sized businesses, although I can think of a couple of West Coast businesses that may look more closely at the Commercialisation of Innovation package and few would disagree that industry training needs an overhaul, but will this help or hinder?

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Transforming the economy

On the global stage, New Zealand's economy has obvious vulnerabilities: its reliance on exports, uncertainties affecting major markets and political instability across many regions, complicated by a lack of coherent global action on climate change.

This Budget has focused on climate change, land use and national infrastructure. With a capital boost of over $3b, the aim is to create opportunities for businesses, regions, iwi and others to transition to a sustainable low-emissions economy.

The $229m Sustainable Land Use Package will fund projects to protect waterways and wetlands and support farmers and growers in using their land more sustainably. It provides funding for advice to farmers; support for Māori agribusiness and farmers changing over to more environmentally sustainable and higher value production; improving on-farm emissions data and upgrading decision and regulatory tools; protecting high value food exports; and updating the country's official assurances system. An additional $49 million is allocated to help transform the forestry sector and support the One Billion Trees programme.

$1b over the next two years is allocated to modernising KiwiRail. Reduced carbon emissions and increased regional business opportunities are key drivers. If taking some heavy traffic off our roads reduces our road toll, the payback will be in human capital.

Cuffs Commentary: Hopefully the forestry initiative won't take off here. Business leaders up North are clicking on to the fact that once the trees are planted, they are basically just left to grow, requiring very little labour inputs compared to if the land was used in agricultural farming. Those area's will likely go into recession once the tree planting finishes. Much of the money allocated to transforming the economy is going to go into rail and there will be little benefit for this spending to the West Coast.

We are unable at present to determine what the cost to farmers will be of their inclusion into the Emissions Trading Scheme, but I note the commentary from farming leaders signaling that the methane reduction targets are unrealistic and not achievable in the current framework.

Tax and the Budget

Further developments with digital services tax and collection of the International Visitor Levy were announced and the Government remains committed to modernising and simplifying the tax system.

Pre-Budget

The major announcement pre-Budget was that Capital Gains Tax is now off the table and that has pretty much overshadowed any tax announcement since. The Government also announced two specific pre-Budget tax measures:

- GST on telecommunications, and
- Repeal of racing totaliser duty

GST on telecommunications

The Government has announced a proposal to change the GST of telecommunications so that these would be aligned with the treatment of other remote services and based on the residency of the supplier. The main implication of this new proposal concerns roaming services provided by telecommunications providers in that:

- outbound mobile roaming services to New Zealand residents overseas are proposed to be subject to GST (currently they are zero-rated), and
- inbound mobile roaming services provided to non-residents in New Zealand would no longer be technically subject to GST.

Repeal of racing totaliser duty

The racing totaliser duty or betting levy will be phased out. It represents 4% of betting profits, amounting to $13.9 million in 2018. This sum will be redistributed to the racing codes and Sport New Zealand, with a proportion set aside to reduce gambling harm.

Fuel Excise

You didn't hear about it in the budget speeches but be prepared for another increase in fuel excise duty. This is going up 3.5c per litre on 1 July 2019 plus another 3.5c on 1 July 2020. With GST on top of this it makes a tax increase of 8c per litre and that's assuming fuel companies don't add a margin as well.

RUC are also going up from 1 July. A Diesel ute or car will go up from $68 per 1000 kilometres to $72 per 1000 kilometres. This is a 6% increase.

Cuffs Commentary: There was very little about taxes in the budget and a comprehensive capital gains tax is off the agenda, but tax by stealth is happening. The top tax bracket is currently 33% for earnings above $70,000. Is this really the bracket for high income earners today? Certainly teachers don't think it is, but the $70,000 level has been there since 2008. More and more people are now paying the top rate of tax. The government needs more tax dollars to cover its spending. The worry is that the government is relying on a medium level of GDP growth to earn increasing taxes to cover its future spending commitments. If this isn't reached the country needs to either reduce debt repayments/increase borrowing, increase taxes or reduce spending. Reducing spending is unlikely to be palatable to Labour voters, so it may pay to be a bit cautious with your debt levels, as the pain is coming. It's a question of how far off is it.