

ACCELERATE

BUDGET ALERT 2017

“ALL NEW ZEALANDERS DESERVE THE OPPORTUNITY TO MAKE THE MOST OF THEIR POTENTIAL, BUT WE CANNOT PROVIDE THAT OPPORTUNITY WITHOUT A GROWING ECONOMY.”

Bill English, Sharing the benefits of growth, Media Release 25 May



ACCELERATE BUDGET ALERT 2017

Did we expect an easier ride from an election year budget? Yup. And we got it. The 2017 Budget's bottom line is to boost spending, ease taxes and give some extra legroom to our growing population and economy.

The Budget combines tax breaks for working families with support for innovation and investment in business. The surplus predicted is largely earmarked for capital spend on infrastructure and there's an intention to keep cutting back our net debt.

Business owners may see new opportunities, particularly in the emphasis on innovation and infrastructure, but they'll have to make their own luck and keep those wheels turning.

FAMILY TAX CREDIT

Balanced against the changes to the tax thresholds are changes to the Family Tax Credit. The abatement threshold will decrease from \$36,350 a year to \$35,000 and the abatement rate will increase from 22.5 cents to 25 cents in the dollar. So if you receive the Family Tax Credit, the amount of Family Tax Credit you receive will start to decrease sooner and by more as your earnings increase.

The Family Tax Credit itself will increase for the first child under 16 by \$9 a week, and for the other children under 16 by between \$18 and \$27 a week each.

INDEPENDENT EARNER TAX CREDIT

The Family Incomes Package gets rid of the Independent Earner Tax Credit (IETC). Less than a third of eligible people actually claim it during the year and increasing the \$14,000 tax threshold to \$22,000 largely compensates those who were receiving the IETC.

For some middle income earners, the combination of the new tax thresholds and disappearance of the IETC results in an annual tax saving equivalent to the value of a flat white and big brekkie for two or a couple of mid-size grocery runs, depending on whose calculator you use.

HOUSING ASSISTANCE

After staying at the same levels for the last decade the Accommodation Supplement will increase. The Supplement assists beneficiaries, pensioners and lower income working families to meet rental, board or mortgage payments. For smaller households it will increase by \$25 to \$75 a week and for larger households by \$40 to \$80 a week. Increases will be geared to recognise where people live in areas where housing costs have increased most.

Students who receive the Accommodation Benefit will see this increase by up to \$20 a week.

A FAMILY SHOW

The early hints of tax relief for families have been fleshed out in the Family Incomes Package which will take effect from 1 April 2018. The legislation giving the changes effect was passed by Parliament the Friday after the Budget was read and at time of writing awaits Royal assent.

TAX BRACKETS

There's a broad recognition that while the average wage has risen, the tax rates haven't flexed to accommodate it. Moves into a higher tax bracket bit into wage rises for lower and middle income families. The Government aims to tackle this by stretching the lower tax brackets. From 1 April 2018, the \$14,000 income tax threshold will increase to \$22,000 and the \$48,000 threshold to \$52,000.

The tax rates aren't changing but the points where they cut in are changing (though there's

no change for the top tax bracket). If you were earning \$22,000 a year, you receive a \$560 tax saving each year; if you were earning \$52,000 a year, it's an annual tax saving of \$1,060.

Tax Rate	Current Bracket	New Bracket
10.5%	\$1-14,000	\$1-22,000
17.5%	\$14,001-48,000	\$22,001-52,000
30%	\$48,000-70,000	\$52,001-70,000
33%	\$70,000+	\$70,001+

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BUSINESS TIME

The Government's Business Growth Agenda invests \$1b over the next four years. Our economy and population have already been growing strongly. Over the next four years, this growth might be slowed down by the inflation that tends to follow economic growth as well as factors beyond our shores if growth rates slow in the trade regions that are so important to us.

The Agenda supports continued growth by investing in innovation, developing our skilled workforce and paving the way – literally – with infrastructure spending on roading, transport and communication networks. This includes investment in infrastructure to support tourism, recognising the pressure increased visitor numbers have put on existing facilities but also acknowledging the corresponding increases to revenue.

INNOVATION

The Business Growth Agenda aims to nurture innovation in New Zealand businesses and attract research and development from overseas.

The Agenda extends the second round of funding to the Government's Innovative New Zealand programme. Some of this is earmarked for strategic science investments, and research and development grants. The Strategic Innovation Partnerships Programme has been expanded with a goal to attract 10 multinational companies to undertake R&D activity in New Zealand by 2020. Economic development funding will be spread across various government initiatives.

FEASIBILITY

So-called black hole expenditure is back on the table for discussion. This is the money businesses spend on trying to get new ideas to fly. Early stage

spending is often not tax deductible and it's a deterrent to business innovation not to be able to recover funds spent on testing feasibility, if it turns out the idea doesn't work. Hence a perception that the business is throwing its money down a black hole.

Businesses can be hog-tied by the capital limitation: if it's capital expenditure it's not tax deductible, but in the early days of testing out whether projects will work and are commercially viable it can be hard to be clear on what's capital expense and what's not.

The Government discussion document, 'Black hole and feasibility expenditure' proposes measures to ensure the tax treatment of feasibility expenditure is clearer, and that it won't receive black hole treatment. Submissions on the proposals close on 6 July 2017. If you would like to discuss how this could affect your business, please call us.

PUBLIC SERVICES AND SOCIAL INVESTMENT

A large slice of the budget is allocated to support our growing economy and population. \$4b in new capital funding is committed across the Education, Health, Defence, Justice, Housing, Primary Sector and Transport portfolios. This includes \$2.39b for Crown Health facilities and district health boards. The investment translates to new schools, additional hospital facilities, housing and water storage as well as greater prison capacity, more police officers, court and corrections services.

The Social Investment Package proposes \$321 million to support the most vulnerable people in our communities: vulnerable children and their families, children with behavioural difficulties and people affected by mental health issues.



QUAKE RECOVERY

The theme of resilience was strong throughout the budget but came into sharp focus when considering our ability to cope with natural disasters.

Funding for the Christchurch rebuild continues, as does rebuilding and repairing infrastructure in the wake of the Kaikoura quake. Shoring up the National Disaster Fund is a priority so from 1 November this year the Earthquake Commission (EQC) premium rate will increase from 15 cents per \$100 in cover to 20 cents per \$100 in cover. This increases home owners' annual EQC premiums by up to \$69 per year.

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