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2016 Budget Report

The 2016 budget contains no major fiscal or social policy announcements. Rather, the message from the Minister of Finance is that NZ is heading in the right direction and trends are favourable, but future economic shocks cannot be ruled out. Therefore, the economy demands further prudent management.

The key elements of this yearôs budget are directed at science and innovation, infrastructure investment, health and other social investment. The maintenance of operating surpluses is a key objective, together with debt reduction. It is clear that any prospect of tax rate reductions is dependent on the achievement of these latter goals.

The key tax measures in the budget are:

- **Reform of the provisional tax regime**. Removal of use of money interest (UOMI) for the first two provisional tax instalments, extending the safe harbour threshold from $50,000 to $60,000 and the introduction of a new ñaccounting income methodò (AIM) that will allow taxpayers with a turnover of less than $5 million to use their accounts to calculate and pay provisional tax monthly or two-monthly.
- **Overhaul of the rules for schedular withholding payments**. Giving contractors the option of choosing their own withholding rate (while having a minimum 10% rate for resident contractors and 15% for non-resident contractors), bringing labour hire firms within the net for withholding payments, and bringing in a voluntary option for contractors not currently covered by the scheduler withholding rules.
- **Removal of late payment penalty**. The current 1% monthly incremental late payment penalty will be phased out in a staggered approach.
- **Greater transparency**. Tax debt in serious cases will be disclosed to credit reporting agencies, and Inland Revenue will share information with the Registrar of Companies in cases where a serious offence has been (or will be) committed.
- The budget allocates $857 million for Inland revenueôs new tax administration system.

Health and infrastructure are the big winners, with spending on each increasing by more than $2 billion over the next four years. Science gets $761 million for various direct funds including the new Endeavour fund, the Marsden Fund and a new Strategic Science Investment Fund.

Other key points are:

- No tax cuts.
- $700 million surplus forecast this year. Surplus forecast to reach $6.7 billion in fiscal 2020.
- $100 million to free up surplus crown land for development in Auckland and $258 million

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- Allocated for social housing, the bulk of which will go to income-related rent subsidies.
- Over the next four years $355 million extra for correction, $300 million more for police, $208 million more for Justice.
- $92.4 million for extra Maori initiatives.
- Industryôs Emissions Trading Scheme subsidy axed, as widely anticipated; $25 a tonne carbon cap remains.
- The Government now plans to restart contributions to the Super Fund in 2020 rather than 2021. That will probably have to be in the region of $3 billion a year.
- Tobacco tax to increase by 10% a year every year until 2020, pushing the price of a packet of cigarettes from around $20 today t0 $30 by 2020. Forecast to raise $425 million over four years.
- The treasury identifies population growth, driven by immigration, as the biggest contributor to GDP growth this year;$600 million dollars of spending originally tagged for budget 2017 to boost infrastructure is brought forward to 2016.
- Budget 2016 projects net core Crown debt to peak at $68.3 billion in 2018 (lower than expected), before reducing to $62.3 billion in 2020 (faster than expected). As a percentage of GDP, it peaks at 25.6% in 2017 and retreats to about 21% in 2020.
- Treasury is forecasting the economy will grow by 2.9% in the year ending June next year and to average 2.8% growth over the five years ended June 2020.

Regards,
National Accountants Ltd

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