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2017 Budget Report

The National-Led Government presented a budget that seizes upon the many opportunities presented by a growing economy. Economic growth is expected to average around 3 per cent over the next few years, leading to more jobs and higher income for hand working Kiwis.

Family income and tax rates

The Family Incomes Package has been carefully targeted at middle New Zealand. There have been no changes in tax rates, but the thresholds where the progressive tax rates kick in will increase from 1 April 2018. The $14,000 income tax threshold will increase to $22,000, and the $48,000 tax threshold to $52,000.

Anyone earning over $52,000 will be $20 per week better off under the charges.

The Independent Earner Tax Credit, which less than a third of eligible people actually claim during the year, is being scrapped. The Family Tax Credit is being aligned so that it is the same no matter how old a taxpayer's children are (up to 18 years of age)-a significant simplification compared to the five different rates we have today.

The final component of the Family Incomes Package sees an increase to the Accommodation Supplement.

Business growth agenda

The Government's plan for growth is sensible conservative fiscal policy, strong orthodox monetary policy, and an ongoing programme of microeconomic reform that enhances the competitiveness and confidence of Kiwi business.

Budget 2017 invests $1 billion over four years in sustaining the strong economic plan that is getting New Zealand to grow.

First, the Government is allocating $373 million in the second round of our innovative New Zealand programme.

Budget 2017 allocates $134 million over four years to advance New Zealand's Trade Agenda 2030.

There is 304 million towards the ongoing development of our screen sector, and $146 million in new funding to grow our tourism infrastructure around the country.

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The Budget observes that over 200,000 more jobs have been created over the last three years to arrive at a real GDP growth rate of 2.7% in the 2016 fiscal year. The annual GDP growth rates for 2017-2020 are forecast to be 3.1%, 3.5%, 3.8% and 2.9%.

The growth has been supported by low interest rates, rapid population growth, residential investment and earthquake rebuilds.

Net migration is expected to fall as the attractiveness of New Zealand declines, although net migration of 212,000 people over the next four years is still expected. The annual long-run increase of $15,000 per annum may emerge in 2022.

Housing investment has been strong up until recently, but currently investment has flattened because of tighter loan-to-value ratios, uncertainty around the Auckland Unitary Plan, capacity constraints and tighter credit conditions. These temporary headwinds are expected to subside so that house price growth may pick up once more in 2018, but ease from 2019 onwards as supply increases to match demand.

Black hole feasibility expenditure

Some costs of investigating the viability of a new proposal or project-that is, feasibility expenditure-are currently neither immediately tax deductible, nor depreciable. As a result, it falls into what businesses describe as the black hole.

Where no asset is created on the balance sheet, feasibility expenditure would be immediately deductible for income tax purposes. Where an asset is created we're proposing that the feasibility expenditure would be capital expenditure for tax purposes.

In addition, capitalized feasibility expenditure and other expenditure on an asset abandoned part way through construction would become immediately deductible if it is also expensed under International Financial Reporting Standards.

The Government has proposed that in relation to feasibility expenditure taxpayers will be able to follow their accounting treatment. This means amounts will generally either be expensed when the cost is incurred or, at worst, deducted when the project is scrapped.

The Government has also proposed that a de minimis rule could apply in certain circumstance to mitigate the compliance costs.

Earthquake Commission (EQC) premium rate increase

Ministerial statement

With the help of international re-insurance, the [National Disaster] Fund has so far paid out over $9.5 billion in claims to those affected by the Canterbury earthquakes. It is currently expected to payout another $550 million in claims for the Kaikōura earthquakes.

Those claims will completely exhaust the National Disaster Fund. We need to re-start the process of replenishing it.

I am therefore announcing that from 1 November this year EQC premium rate will increase from 15 cents per $100 in cover to 20 cents per $100 in cover.

This will have the effect of increasing home owner's annual EQC premiums by up to $69 per year.

The charge will mean that we are well on the road to restoring the National Disaster Fund around $1.75 billion within 10 years.

Infrastructure investment

The Government's second fiscal priority in this budget is investing in the infrastructure for a growing economy.

Budget 2017 takes New Zealand infrastructure investment to another level.

For the first time, the Government is allocating $4 billion in new capital funding in one budget across the Education, Health, Defence, Justice, Housing, Primary Sector and Transport portfolios.

The new investment includes a further $392 million for more new schools and classroom around New Zealand – taking our total investment to $1.4 million over the last four budgets.

Budget 2017 includes $150 million in additional capital for the Health Sector, $576 million for Defence Force upgrades, $763 million for new prison capacity, $63 million for Crown Irrigation to invest in new water storage and $100 million for the Crown Land Programme, which frees up more Government land for housing.

$1.8 billion of the new budget spend is in the Transport portfolio. This includes $450 million for KiwiRail for the rail network around New Zealand, $436 million for the first stage in Auckland's city rail Link, $812 million for the reinstatement of State Highway 1 north and south of Kaikōura, and $98 million for upgrades to wellington's metro rail network.

The Government also intends to allocate a further $7 million in new capital spend in the next three budgets, taking our total additional capital spend to $11 million.

Through this new capital spend and existing commitments the Government and its key infrastructure agencies will invest a total of $32.5 billion over the next four years in new infrastructure.

Public services investment

The Government's biggest single fiscal priority in Budget 2017 is to invest in the public services in health, education, law and order and social development.

The new funding in Budget 2017 includes $3.9 billion over four years for New Zealand's Health Sector- taking health investments to a record $16.7 billion next year.

We are investing $1.2 million in new operating expenditure over four years for law and order.

Social investments

Budget 2017 includes $321 million for fourteen cross-agency social investment initiatives that are designed to tackle long-term issues for vulnerable New Zealanders.

These cover areas like helping kids get a better start in life; addressing barriers to employment and independence; and reducing criminal reoffending.

A big focus in our social investment programme is mental health, so we've ring-fenced $100 million in a special social investment fund to support innovative solutions to address mental health issues.

Overall the Government has budgeted an additional $224 million over four years for mental health services.

Regards,
National Accountants Ltd

John Nobilo