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Budget 2021 boosting benefits and lower forecast Debt and Deficits, 20 May 2021

The Minister of Finance, Hon Grant Robertson, delivered Budget 2021 on Thursday, 20 May 2021. Budget 2021 is the first Budget since the 2020 General Election.

Budget 2021 supports the long-term wellbeing of New Zealanders. The Government's priorities this term are to:

- continue to keep New Zealanders safe from COVID-19
- accelerate the recovery and rebuild from the impacts of COVID-19, and
- lay the foundations for the future, including addressing key issues, such as New Zealand's climate change response, housing affordability and child poverty.

At a Glance

- \$15.1b of new spending over next four years.
- Benefit rates lifted by \$32-\$55 a week per adult, at a cost of about \$1b a year.
- Health spending up by \$4.7b over four years.
- Infrastructure investment lifted to \$57.3b over forecast period.
- \$300 million for NZ Green Investment Finance.
- Confirmed funding for the \$3.8b housing acceleration fund.
- Maori housing to get \$380m.
- More money for rail.
- Vaccine funding confirmed.
- Economy forecast to grow strongly, peaking at 4.4% annual growth in year to June 2023.
- Gov't's books improving, with net debt as proportion of GDP staying under 50%.
- \$5.1b left in the Covid-19 response and recovery fund to respond to further outbreaks, if they occur.

Key highlights

- **Welfare and families:** The weekly main benefit rates will increase by between \$32 and \$55 per adult to bring these in line with a key recommendation of the Welfare Expert Advisory Group. The increases will be implemented in 2 stages: an immediate \$20 per adult per week increase on 1 July 2021 and a second increase on 1 April 2022. For families with children, the main benefit rates will be increased by a further \$15 per adult per week. The student living support will increase by \$25 per week on 1 April 2022.

Note: On 20 May 2021, the Government introduced the Taxation (Budget 2021 and Remedial Measures) Bill (38-1). The Bill increases the Minimum Family Tax credit threshold from 1 July 2021 as a consequence of increases to Social Welfare benefits.

- In addition to increasing income support, the Government is investing:
 - \$527 million for an extension to the Ka Ora, Ka Ako Healthy School Lunches Programme
 - \$57 million to increase financial assistance for caregivers
 - \$15 million to build a strong foundation for change by enabling faster resolution of disputes to reduce the time children will spend in the family justice system, and
 - \$10 million to maintain SmartStart and Life Events, which provides a central location for parents and caregivers to access information and support related to pregnancy and early stages of childhood development.
- **Reinstating the Training Incentive Allowance for levels 4–7 of the New Zealand Qualifications Framework:** As part of New Zealand’s recovery from COVID-19, 4 years funding has been provided to support around 16,000 sole parents, disabled people and carers receiving eligible benefit with study costs.
- **New Zealand Green Investment Finance Ltd:** New Zealand Green Investment Finance Ltd has been recapitalised with \$300 million for continued investment in support of climate change mitigation and to create jobs and opportunities.
- **Housing acceleration fund:** Housing investments include a \$3.8 billion Housing Acceleration Fund, which will provide a mix of contestable funding for infrastructure project across the country and support to ramp up delivery of large-scale projects, which provide a mix of public, affordable and market housing.
- **Maori housing solutions:** \$380 million has been allocated for Māori housing solutions, including building new houses in areas with high rates of Māori housing deprivation, repairs for existing housing and increasing capacity and capability for iwi, hapu and other Māori housing providers.
- **Capital investments funding:** Infrastructure spending of \$57.3 billion has been allocated from 2021 to 2025. This includes \$810 million for KiwiRail to purchase new locomotives and wagons, and complete upgrades to mechanical facilities and investment in core assets, and \$10 billion for roads and public transport projects. In addition, \$700 million has been provided for District Health Boards to invest in new assets and \$300 million has been allocated to support the redevelopment of Scott Base.

- **Health sector:** Pharmac has been allocated an extra \$200 million over 4 years. However, the Government has backed down on free annual GP visits and eye checks for Supergold cardholders.
- **District health Boards** will receive \$2.7 billion over 4 years to continue delivering essential health services throughout New Zealand.
- **Funding for Māori health:** Budget 2021 provides \$225 million operating funding for a Māori Health Authority, including funding for this Authority to invest in hauora Māori services. Budget 2021 also provides \$18 million operating funding to establish iwi/Māori partnership boards.
- **Digital skills training programme:** Funding has been provided for a digital skills training programme for New Zealand small businesses, with supporting advisory services to help 30,000 businesses create digital business action plans.
- **Tourism communities:** \$200 million operating and capital funding has been allocated to drive recovery in the tourism sector, with particular focus on Kaikoura, Mackenzie District, Queenstown Lakes, Fiordland and South Westland. \$15 million has also been allocated to support Māori tourism operators.
- **Reform of Tomorrow's School system:** Budget 2021 provides funding for the first year of a multi-year investment to reform New Zealand's current schooling model.

All quiet on the tax front

After the dramatic March 2021 tax announcements that caused a tailspin among property investors, Budget 2021 is silent on any significant new tax legislative proposals. However, Budget 2021 notes that New Zealand is continuing to work with the OECD to find a multilateral solution to the challenges that the digital economy poses for international taxation.

Budget 2021 also states that the "Government's fairness objectives for the tax system are:

- *Progressivity:* individuals with a higher income, and therefore ability to pay, should pay a greater proportion of their income in tax.
- *Reducing inequality:* the tax system should help in limiting excessive wealth inequality over the longer term.
- *Horizontal equity:* the principle that people that are in the same position should pay the same amount of tax."