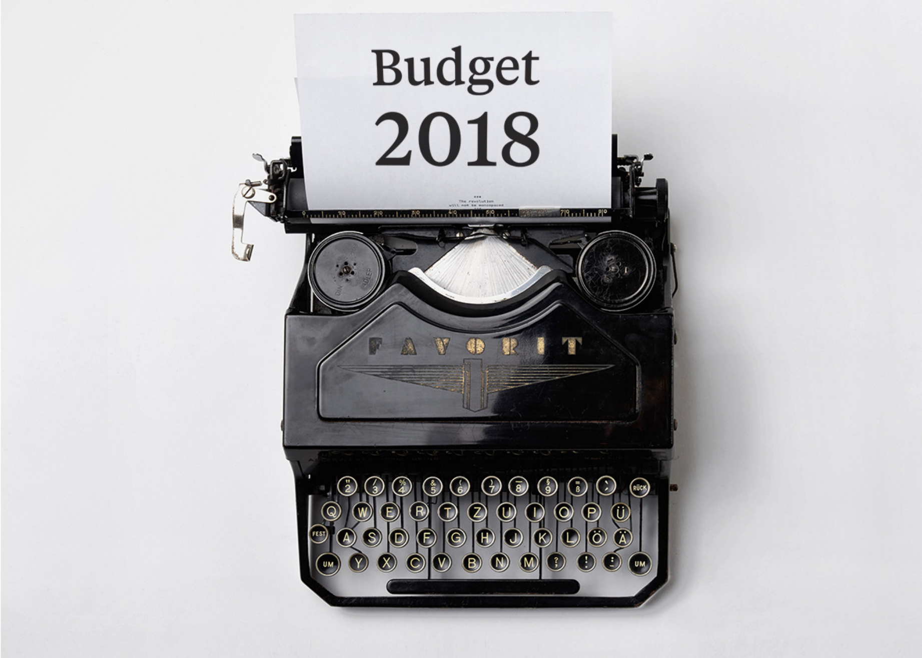
Paul Duggan & Associates Limited
Chartered Accountants

# ACCELERATE

**BUDGET ALERT 2018**

## "WE ARE COMMITTED TO LIVING WITHIN OUR MEANS AND HAVING A BUFFER TO DEAL WITH THE RISKS AND SHOCKS THAT A SMALL COUNTRY LIKE NEW ZEALAND INEVITABLY FACES."

Hon Grant Robertson, Finance - Minister




There weren't too many surprises with the 2018 Budget. It marks a point on a continuum rather than signifying an actual threshold crossed. The Government has been signposting their direction all year and proposals relating to tax and other sectors are still out for consultation and may not start to be realised until next year at the earliest. No big carrots. No big sticks.

Transformation and building are the keywords being employed to address social and infrastructure deficits. Treasury forecasts economic growth at an average of 3% a year over the next four years with a surplus for the 2018/19 year of $3.7 billion. Part of the strategy is to slow debt repayment but if the surpluses and economic growth rate behave as forecast, the net debt to GDP ratio should decrease below the targeted 20% within four years.



## HEALTH

Health spending is the headliner of the 2018 budget, with an extra $750 million allocated to capital spending and an additional $3.2 billion to operational funding over the next 4 years. The Minister described this as "bread and butter funding". The new capital is slated to replace and refurbish hospitals and healthcare facilities. The additional operational funding is ticketed against a long list, including:

- relieve pressure on the DHBs
- free up queues for elective surgery
- boost fees for midwives
- improve air ambulance services
- extend bowel cancer screening
- pilot an integrated therapies mental health scheme for young people

Free doctors' visits for everyone under the age of 14 and low-cost GP visits for all community service card holders will help make it an easier decision for many to seek primary health care.

## TAX

**"Our tax system will be fairer and more balanced to encourage investment in the productive economy."** Grant Robertson

The budget position on tax is something of a watching brief. The Tax Working Group (TWG) was a tangible presence while the Budget was read but their interim report is not due out until September this year, their final recommendations coming out early 2019. In the meantime, the measures announced include:

- Ring-fencing investors' tax losses on rental properties so they cannot be offset against other taxable income to reduce net tax paid
- Tax credits for research and development
- Changes to bloodstock tax rules for the New Zealand racing industry attracting new investment to the breeding industry.

## COMPLIANCE AGENDA


There is a drive to widen the tax base. With that in mind, the Government will provide extra operating funds to Inland Revenue to collect more taxes and, in particular, to ensure outstanding company tax returns are filed. At a proposed cost of $31.3 million this is expected to raise revenues in excess of $183 million over the next four years. Taken with Inland Revenue's tax policy work programme, there's a strong compliance agenda to plug leaks and stop rorts to the system.

The message for businesses, of course, is to ensure tax compliance is a priority, all those i's dotted, all those t's crossed.

# SUPPORTING INNOVATION – R&D

The Budget allocates $1 billion over four years to finance tax incentives for more research and development (R&D) by Kiwi businesses. R & D has had something of a Stop Go course over the last decade with a range of measures deployed. These have included grants to off-set costs at the front end and tax credits to give some relief at tax time.

The Government will reintroduce a non-refundable R&D tax credit at 12.5%. It applies to businesses with eligible R&D spend of over $100,000 per annum (up to a maximum of $120 million) and will apply to expenditure incurred from 1 April 2019. This is intended to supplement the existing (R&D) loss tax credit which lets innovative companies access their tax losses sooner so they have cash on hand to help grow their business. Eligible companies can cash out R&D loss tax credits for a given tax year. And the tax credit approach is balanced with R&D tax incentives in the form of innovation grants designed by MBIE and Callaghan Innovation.

Where this leaves the majority of Kiwi businesses is a bit of an unknown. $100,000 is a significant capital threshold for dedication to R&D in a given year. And R&D investments are long-term investments. Businesses need to be able to commit funds or attract investment for programmes that run over a number of years. Incentives for innovation need to be sustainable over time, with a long-term commitment from the Government. The proposals are still being worked over, and it remains to be seen how the rules will apply to software and what benefits can be obtained by businesses in a tax loss position.

## PROVINCIAL GROWTH FUND

Announced in February, the Provincial Growth Fund (PGF) has been allocated $1 billion across both operating and capital expenditure. This includes funding across the One Billion Trees programme and investment-ready initiatives. It is early days yet to predict outcomes for regional business and economic growth. The PGF has so far committed $130.2 million to the regions for projects across various sectors, including forestry, tourism, energy and infrastructure such as KiwiRail. The broad aim is to lift regional productivity potential. All provinces are eligible for funding, however, some areas have been identified for early investment.

### EDUCATION

While the Government points out the Budget provision for $1.6 billion in new operating funding over four years is a 45% increase on last year's Budget, most seem to agree that it still won't go far enough. $395.8 million in new capital funding for better schools and hundreds of new classrooms seems to be a start, along with an additional 1,500 teachers in our primary and secondary schools across the country over the next four years.

### HOUSING

December's mini-Budget allocated $2.1 billion for KiwiBuild to deliver 100,000 affordable houses across the country, including 50,000 in Auckland over the next 10 years. Budget 2018 commits more than $1 billion in new funding towards housing, including $369 million in new capital funding. This includes increased state housing and grants for heating and insulation. This is clearly targeted as a welfare measure but injecting money into construction generally has a generous ripple effect through contractor businesses, stimulating growth.

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