

June 3, 2020

NEW ZEALAND GOVERNMENT COVID-19 RESPONSE

The New Zealand Government has announced an NZ\$50 billion COVID-19 Response and Recovery Fund as part of Budget 2020, comprising business and income support programmes, as well as investments in infrastructure and public services. This follows on from the earlier \$12.1 billion Economic Recovery Package. Combined, this amounts to 21 per cent of GDP.

On top of these programmes that are specifically designed to address the economic fallout of the crisis, the Government also announced large increases in investment in public services in the Budget and is rolling out the \$12 billion New Zealand Upgrade infrastructure programme.

The Reserve Bank of New Zealand has cut the Official Cash Rate to a record low 0.25 per cent.

Business and Income Protection Programmes

- **Wage subsidy:** a payment of \$7,000 per full-time worker and \$4,200 for part-time workers to help pay wages for 12 weeks (equal to 80 per cent of the minimum wage).
- Available to businesses with a 30 per cent reduction in revenue to assist with paying wages.
- Initially limited to SMEs, it was expanded to all businesses. An initial COVID-19 sick leave and self-isolation payment was later folded into the wage subsidy.
- Two-thirds of workers had wages supported by the scheme. Using a high-trust model, money was paid on application with follow-up random auditing.
- \$11 billion paid out, mostly in April: equal to nearly half of monthly GDP. The scheme has been credited for New Zealand's relatively small number of job losses compared to Australia and other countries.
- A \$3 billion extension to the scheme will be available for 8 weeks for businesses with 50 per cent revenue loss. The Government has indicated more wage support may follow.
- **Business tax relief:** Loss-carry back — Businesses expecting to make a loss in either the 2020 year or the 2021 year can use that loss to offset profits they made the year before.
- Reintroduced depreciation on commercial and industrial buildings — For new and existing industrial and commercial buildings, including hotels and motels.
- Higher immediate deduction limit for capital purchases - Temporary increase (to \$5,000) for 2020/21. The threshold is permanently increased to \$1,000 from 2021-22 onwards.



- Higher provisional tax threshold - Increasing the threshold for having to pay provisional tax from \$2,500 to \$5,000, allowing more small taxpayers to delay paying their taxes.
- Late tax payments — The Commissioner of Inland Revenue can waive interest on late tax payments for taxpayers who have had their ability to pay their tax on time significantly adversely affected by the COVID-19 outbreak.
- **Business Finance Guarantee Scheme:** Loans of up to \$500,000 for affected businesses with a turnover of between \$250,000 and \$80 million per annum. The loans will be for a maximum of three years and expected to be provided by the banks at competitive, transparent rates, with the government taking 80 per cent of the risk. \$70 million has been lent so far.
- **Small Business Cashflow Loan:** To supplement the Business Finance Guarantee Scheme, after lending was unsatisfactorily low, viable businesses with up to 50 employees can borrow \$10,000 + \$1,800 per employee (maximum \$100,000) from the IRD.
- 3 per cent interest, but interest-free if repaid within a year. Repayments not required for two years. Loan to be repaid within five years. \$1 billion has been lent so far.
- **COVID-19 Business Debt Hibernation regime:** Allows businesses to place their existing debts on hold for up to seven months to help them start trading normally again and provides directors relief from some requirements of the Companies Act.
- **Support for Māori communities and businesses:** Specific funding for assistance to Māori businesses, health providers, and community outreach.
- Income support for non-workers and those who lose jobs: Main benefits permanently increased by \$25 per week from 1 April 2020.
- To support beneficiaries and super-annuitants, the rate of Winter Energy Payment has doubled for 2020. This change is temporary. The rates for 2020 will be \$40.91 per week (single people) and \$63.64 per week (couples or people with dependents).
- From 1 July 2020, working families with children who are not receiving a main benefit and have some level of employment income each week will no longer need to satisfy the hours test to receive the In Work Tax Credit.
- From June 8, people who have been made redundant because of the pandemic will be eligible for a \$490 a week payment for full-time workers and \$250 a week for part-time workers. Both payments are untaxed and will be available for 12 weeks from 8 June.

Housing Protection Initiatives:

- **Mortgage repayment holiday:** Six-month repayment holiday for residential mortgages. Interest still accrues during the holiday.
- **Tenant protections:** Six-month freeze on residential rent increases and increased protection on tenancies being terminated.
- **Housing the homeless:** Housing for all people sleeping in streets or in cars provided in hotels and motels.

Economic Recovery Initiatives:

- **Infrastructure:** \$5 billion for 8,000 additional state and public houses.
- \$3 billion for 'shovel-ready' infrastructure projects. Indications are that water and other horizontal infrastructure will receive a lot of this funding. \$600 million is for small-scale local government projects
- \$1.1 billion capital investment in transport, including replacing ageing ferries and locomotives.
- \$56 million for the Warmer Kiwi Homes programme to insulate a further 9,000 homes.
- The Government has said it will progressively roll out initiatives from the COVID Response and Recovery Fund in the coming weeks and months. Around \$20 billion remains to be allocated.
- The \$12 billion New Zealand Upgrade programme announced in early 2020 will continue and be accelerated where possible, as will other infrastructure projects.
- The Resource Management Act will be amended to create a temporary fast-track to enable selected projects to be given consent faster without public consultation.
- **Jobs and training:** \$3.2 billion for an eight week targeted extension of the Wage Subsidy Scheme for businesses that have suffered, or expect to suffer, revenue loss of at least 50 per cent for the 30 days prior to the application date versus the nearest comparable period last year, as well as some new businesses.
- \$1.1 billion to create 11,000 regional environmental jobs including pest control and enhancing biodiversity.
- \$1.6 billion to make tertiary courses free in building and construction, agriculture and manufacturing to help people who have lost their jobs retrain.
- \$320 million for fees free apprenticeships and vocational training, targeting sectors that are expected to have growing demand during the COVID-19 recovery. This will work alongside a \$412 million employer apprenticeship subsidy scheme, details to be announced.
- **Tourism and air travel:** \$400 million targeted Tourism Recovery Fund — the first stages of an action plan agreed with the industry, alongside the extension of the Wage Subsidy Scheme and a domestic tourism campaign.
- Air New Zealand received a \$900 million convertible loan.

Public Services Budget Investments

- \$5.5 billion for health, including \$3.9 billion for DHBs, \$160 million for medicine and medical supplies purchased through Pharmac, and \$833 million for support for people with disabilities.
- On top \$500 million directly for COVID response.
- \$217 million to expand the Free and Healthy School Lunch programme to 200,000 students from Term 4.
- \$414.2 million for the Early Learning Sector.
- \$246.1 million investment in community services, including a significant funding boost for family violence service providers.
- \$186 million across the education sector, to support distance learning and help students continue their studies during lock-down.



Economic and Fiscal Forecast

- New Zealand's real GDP growth rate is forecast to decline from 2.8 per cent in the year ending June 2019 to - 4.6 per cent in the year ending June 2020, driven by an expected quarterly decline in GDP of over 20 per cent in the June 2020 quarter. Annual real GDP growth is forecast to become positive from the year ending June 2022.
- Treasury expects the increased government spending to save 140,000 jobs over the next two years. However, unemployment will still rise to 9.8 per cent by September 2020, before recovering.
- A record \$28 billion operating deficit is expected in the 19/20 year, which will rapidly shrink in the coming years to \$4.9 billion in 23/24. A surplus is not forecast until 27/28. On top of the operating deficit, the Government will be undertaking record capital investment totalling \$58 billion over the next four years. In combination, the deficits and capital expenditure result in net core Crown debt hitting \$200 billion in 23/24 or 54 per cent of GDP, compared to 19 per cent before the crisis.

Further information

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