
The Special Bulletin

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New Zealand Budget 2009

Budget Overview

Finance Minister Bill English delivered the 2009 Budget on 28 May 2009. Mr English states that Budget 2009 is aimed at starting New Zealand on the road to recovery, putting in place policies that will ensure that the New Zealand economy emerges strongly from the global recession, bring the budget back in surplus, and provide the strong growth, high incomes and quality public services that the Government wants into the future.

Budget 2009 has three main objectives:

Helping New Zealanders through the recession and supporting jobs

Budget 2009:

- Maintains all entitlements to income support;
- Increases spending on front-line public services, particularly in health, education, and justice; and
- Fulfills the remaining Election commitments.

Mr English states that these elements are intended to give New Zealanders security, maintain economic activity, and enhance public services.

Lifting productivity and raising New Zealand's international competitiveness

Mr English states that Budget 2009 is the first step in the Government's longer-term programme to raise productivity.

The Government's longer-term programme includes the following initiatives:

- Increasing investment in infrastructure;
- Improving the regulatory environment under which businesses operate, including changes to the Resource Management Act 1991 and reviews of the Overseas Investment Act 2005, Building Act 2004 and the electricity market regulation;
- Lifting the literacy and numeracy skills of young people, by providing funding to help students meet national standards and to build new schools; and

- Improving the productivity of the public sector.

Taking steps to keep Government debt under control

Mr English states that the Government intends to get the budget balance back into surplus, keep the increase in Crown debt to a manageable level, and eventually lower this debt.

To achieve these goals, the Government will restrain growth in government spending, maintain the Crown's revenue base in future years; and improve the management of the Crown's assets and liabilities. Mr English states that to get debt under control, the Government has decided:

- To **reduce its operating allowance for new budget spending** to a maximum of \$1.1 billion in 2010-11. For following Budgets, the operating allowance will increase at a rate of 2% per annum. The allowance for new capital spending will remain at \$1.45 billion in future Budgets, until increasing to \$1.65 billion in Budget 2013.
- To **delay the personal income tax cuts scheduled for 2010 and 2011**, because of the severity of the current recession. However, the delayed tax cuts will be assessed in future budget processes to see if they are affordable.
- To **suspend automatic contributions to the New Zealand Superannuation Fund (NZS Fund)**. This measure will not, however, affect people's entitlements to New Zealand Superannuation. Mr English states that the decision to suspend automatic contributions to the NZS Fund was made because budget surpluses no longer exist. If the Government were to continue the contributions, the Government would have to borrow, in 2010, just under \$30 million a week (or \$1.5 billion a year) to put into the NZS Fund.

Budget 2009 Key Points

- Government forecasts:
 - 2009/10 cash deficit \$12 billion dollars, 6.8 pct of GDP;
 - 2010/11 cash deficit \$12.5 billion, 6.9 pct of GDP
- Gross debt as a percentage of GDP peaking at 43 percent in 2016/17;
- Net debt \$27.3 billion in 2009/10, 15.6 pct of GDP;
- Total bond issuance estimated at \$8.5 billion in 2009/10;
- Additional \$1.45 billion in capital spending next year and reducing to \$1.1 billion annually in subsequent years;
- Scrapping planned tax cuts in 2010 and 2011;
- Suspending automatic contributions to NZ Super Fund until back in surplus;
- Government cuts growth forecast to 1.7 percent contraction in the year to March 2010 and 1.8 percent growth in 2010/11.

Personal Tax Cuts

Personal Tax Cuts Deferred

The Government announced in Budget 2009 that it will defer the second and third tranches of planned tax cuts in 2010 and 2011, to avoid incurring further debt. The Government remains committed, however, to lower personal income taxes, and they will be assessed in future Budgets. The Treasurer, Bill English stated that the Government has "...taken considered decisions now to avoid having to make harsher decisions later."

Mr English said that the Government cut taxes on 1 April 2009 because it believes lower income taxes benefit the economy. However the severity of the recession means tax cuts scheduled for 2010 and 2011 are currently unaffordable. Their timing will be reassessed as part of future budgets, according to Mr English.

In summary, the Government states in Budget 2009 that:

- The Government remains committed to lower personal income taxes.
- The planned second and third tranches of tax cuts, which were due to take effect on 1 April 2010 and 1 April 2011 respectively, have been deferred to avoid further increasing debt.
- Even with the other debt reduction measures in Budget 2009, the Treasury is forecasting large budget deficits for 2010 and 2011. This means the Government would have added to its already considerable debt to fund the planned second and third tranches of tax cuts.
- This has been a difficult decision. But, on balance, the Government has decided to prioritise safeguarding entitlements, improving public services and reducing debt.
- Tax cuts will be assessed to consider whether they are affordable, as part of future budget processes.
- The Government's first round of tax cuts delivered on 1 April 2009 is not affected. It left around \$1 billion a year in the pockets of 1.5 million New Zealand workers. These tax cuts were fully funded from other policy changes rather than through borrowing.
- By deferring the second and third tranches of the tax cuts, the Government will save around \$900 million a year from 2011/12.
- The Government's medium-term goal remains to align and reduce the top rate of personal tax, trust, and company tax rates at a maximum rate of 30 per cent.
- The decision to defer the tax cuts will be included in legislation introduced on 28 May 2009.

Tax scale from 1 April 2009:

12.5c per \$1 on income up to \$14,000
 21c per \$1 on income between \$14,001 and \$48,000
 33c per \$1 on income between \$48,001 and \$70,000
 38c per \$1 on income over \$70,000

Independent earner tax credit (IETC) from 1 April 2009:

- \$10 per week on income between \$24,000 and \$44,000;
- Annual entitlement abated at 13c per \$1 on income over \$44,000; and
- \$0 per week on income of \$48,000 and over.

To be eligible for the IETC an individual must not receive Working for Families tax credits, New Zealand Superannuation or a benefit.

Personal income tax examples:

Example 1: Single earner

Annual gross income from salary or wage		\$42,000
Annual tax liability	\$7,630	
Annual Independent earner tax credit	\$520	
Net tax paid		\$7,110
Annual net income		\$34,890

The tax payer presented in Example 1 is not in receipt of any additional core government benefits, Working for Families tax credits or New Zealand Superannuation payments. The annual value of the independent earner tax credit presented in Example 1 was determined by rates and thresholds applicable from 1 April 2009.

Example 2: Single income couple with three children under 13

Annual gross income from salary or wage		\$50,000
Annual tax liability	\$9,550	
Working for Families tax credits	\$11,210	
Net tax credit		\$1,660
Annual net income		\$51,660

Example 3: Combined income couple with three children under 13

Annual gross income from salary or wage		\$80,000
Annual tax liability	\$14,660	
Working for Families tax credits	\$5,210	
Net tax credit		\$9,450
Annual net income		\$70,550

Further details on Budget 2009 are available at: www.treasury.govt.nz/budget/2009 ; www.beehive.govt.nz/budget2009 ; www.taxpolicy.ird.govt.nz

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