



Pre Election Poll 2020

New Zealand has always been a country of two halves (or three islands). However, since COVID-19 hit, we've seen divisions appear not geographically but by sector, and business leaders are also split when it comes to government spending and taxation. Our Chairman, David Searle, talks about the findings from our Pre-Election client poll.

Over the past week, we polled more than 600 business people across New Zealand ahead of this week's General Election to find out how they were faring as a result of the pandemic, how they would prioritise spending and where they stood on signalled tax and business-related policies.

Revenues fall due to COVID

Our Baker Tilly Staples Rodway poll has found more than 56% of businesses in New Zealand have experienced a decrease in revenue as a result of COVID-19. We have been in a 'false economy' shored up by wage subsidies and the desire of businesses to make sure they are on top of their compliance and tax obligations while they still have the resources available. This is borne out by Tax Management New Zealand's observation that 55% of businesses chose to contribute more to Inland Revenue's tax pool to cover provisional tax than last year. We have also been hearing concerns around political parties' signalled tax changes and policies that increase business costs such as extra sick leave, which may also be a factor in decisions to prepay tax while cash is available.

Now, for tomorrow

But some saw no change

On a more positive note, nearly 30% of businesses saw no change in revenues as a result of COVID-19. More than half (56%) expect to make no further job cuts, and a further 23% expect to employ more staff. Despite the second Auckland lockdown – almost certainly due to some porosity at the border – nearly 64% of business respondents want border restrictions safely relaxed to allow tourists, migrant workers and students within the next 12 months.

What lies ahead

The next few months will be critical, as some businesses may be taking a 'wait and see' approach to the election before making any strategic decisions or serious investments. 40% fear the election result will worsen their operating environment, but 38% anticipate no change. Only 8.5% believe that the election will have a positive impact.

Government spending priorities

The areas businesses identified as the most important for the new government to invest in demonstrate they are looking to the future. Respondents ranked targeted business incentives or grants (sixth on the list) lower than infrastructure, technology and innovation and healthcare, the top three priorities respectively.

Housing no longer dominates the wishlist, as it has in the public narrative for many years. Instead, it has slipped to fifth place – something that may change again as businesses achieve their growth targets and look to recruit more workers.

Instead, more than a quarter of respondents (27%) felt infrastructure investment – getting people, goods and information flowing faster around the country – should be the top priority for the incoming government. Nearly 45 per cent ranked infrastructure among their top two priorities.

The importance given to technology and innovation is particularly striking, likely reflecting the shift to remote working, online sales and other tech-driven innovations during lockdown. Microsoft reported in April 2020 that it had witnessed more than two years of tech transformation in just two months. One in four respondents in our poll invested in new technologies as a result of COVID-19, and the high demand for further government investment in technology and innovation suggests many business leaders see technology as a significant growth opportunity for their businesses and the economy as a whole.

Healthcare and medical research placing highly comes as no surprise, while increasing skills and apprenticeships (fourth on the list) ranked higher than business incentives. This also suggests many businesses are concerned about the difficulty of accessing skilled migrants from overseas while borders are tightly controlled.

As to how much the government should be spending, businesses take a reasonably balanced view on the amount of government debt that should be incurred to support our economic recovery. While half (51%) would rather government debt were reduced, another 40% are comfortable with the current level, at around 30% of GDP and expected to rise above 50% by 2024.

Tricky Tax Proposition

Similarly, there's no universal business position when it comes to taxation. While more than half (53%) were in favour of the Opposition's proposed tax cuts costing at \$4.7 billion, another 41% were opposed. Meanwhile 54% of businesses opposed Labour's proposed top tax rate of 39% on earnings above \$180,000, while 44% were in favour.

There is greater consensus on the Greens' proposed wealth tax for those worth more than \$1 million, with 72% disagreeing to some extent, many strongly. If the wealth tax were introduced, more than one in five people (22%) would consider moving overseas. Businesses are also strongly opposed to having five extra sick days and an extra public holiday per year, with nearly half (48%) strongly disagreeing and a further 27% disagreeing with the proposal – three quarters in total.

The inference is that while a good proportion of business leaders may accept increased taxation on earnings to assist with government debt reduction, taxation on existing assets is seen as unfair, particularly for retirees who have planned based on a tax regime that has been stable for many years.

The outlook for the next 12 months

With COVID-19 recirculating the globe with a rush of "second waves", the crystal ball for the next year is clouded. What's clear is that in such an uncertain climate, businesses want to move forward without more new costs to impede their recovery and their ability to take on new employees.

Whatever the result of this year's election, the job of our leaders will be to reassure businesses that they are listening to all concerns and wishes so everyone is pulling together towards New Zealand's economic rebuild. Given the clear divisions on how that's best accomplished, there will undoubtedly be some compromise.

David Searle
Chairman
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