Budget 2020 – Cashing in the chips

Cashing in the Chips

Minister of Finance Grant Robertson presented a budget in an environment that any finance minister dreads: a budget in a time of crisis. Key items of interest include:

- A $50 billion fund to help protect the economy through funding jobs, training and infrastructure. $14 billion has already been spent and a further $16 billion has been allocated in this budget.
- An expansion of the wage subsidy scheme for a further eight weeks in more targeted circumstances
- A $150 million short-term temporary loan scheme to incentivise businesses to continue research and development programmes

Wage Subsidy

The 12-week wage subsidy has been extended for a further eight weeks, with a further $3.2 billion of the budget being allocated towards the extension. However, to be eligible for the expanded wage subsidy, businesses must now show a 50% reduction in revenue in the 30 days prior to applying for the new wage subsidy compared to last year. This is a considerably tighter threshold, both in terms of percentage (50% versus 30%), as well as needing to prove a decline in revenue (previously you only needed to project a decline in revenue).

Baker Tilly Staples Rodway's Human Resources Consulting team are available to assist you in discussions around the wage subsidy and general employment matters. Our team more generally can also assist you with questions around whether your business meets the 50% reduction in revenue threshold for the expanded wage subsidy and can assist you in determining whether your business met the 30% reduction in revenue threshold for the original wage subsidy.

Research and Development

The short-term temporary loan scheme to incentivise businesses to continue research and development programmes is a further continuation of work done in recent years to encourage research and development spending, including the research and development tax credit which came into force from the 2020 year. We expect further detail to follow in the coming weeks.

The Future

Minister Robertson pointed out government debt is expected to peak at 53.6% of GDP. After years of fiscal restraint, New Zealand's cashing in all its chips now to increase debt to levels not seen since the mid-1990s. This begs the question of how it is going to be paid for and it is unfortunate the government has not given an indication of whether tax increases might be in New Zealand's future. While it is difficult to make predictions in the current environment, business planning would be vastly aided with as little uncertainty as possible.

Other Areas

While not announced in the budget, there are two areas where government movement has occurred in recent weeks.

Loss Carry Back

As previously discussed, (refer our May Tax Talk), the government has enacted a loss carry back scheme which will enable losses incurred in either the 2021 or 2020 year to be carried back one year to either the 2020 or 2019 year respectively. Tax refunds are already being made based on estimates of losses filed with Inland Revenue.

Use of Money Interest Changes

The use of money interest charged by Inland Revenue on under and over payments of tax have changed effective 8 May 2020. The new rates are:

- Underpayments: 7.00%
- Overpayments: 0.00%

Please contact your Baker Tilly Staples Rodway advisor if you have any queries around today's budget.