



2015 BUDGET

Executive Summary

A plan that's working

Hon Bill English, Minister of Finance

21 May 2015

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New Zealand Government

Solid economic growth is continuing

The outlook for the economy remains positive, with growth of 2.8 per cent on average over the next four years, which means more jobs, higher incomes and opportunities for families to get ahead.

- By mid-2019, the number of people in work is expected to rise by another 150,000, and average wages are expected to rise by \$7,000 to \$63,000 a year.
- The unemployment rate is expected to fall below 5 per cent in 2016.
- Unusually in the context of solid economic growth, cost of living increases are currently very low with annual CPI inflation of 0.1 per cent.
- Low inflation means interest rates will likely stay lower for longer – helping households with a mortgage and businesses wanting to invest for growth.

But lower-than-expected inflation also means that tax revenue is not rising as quickly as expected, despite solid growth in the real economy.

- Tax revenue is forecast to be \$4.5 billion lower over this year and the next three years, compared to Budget 2014.

Economic growth (real GDP)

Annual average % change



CPI inflation

Annual % change

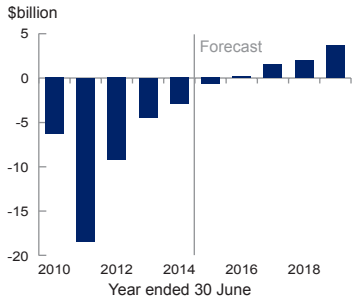


The Crown's books are in good shape

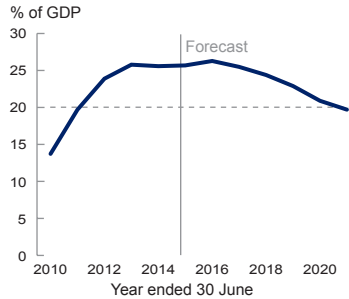
The Government is making good progress on its fiscal priorities. Operating balances are growing over time and debt is reducing as the Government maintains its careful and responsible management of public spending.

Expenditure is firmly under control. Despite the lower-than-expected revenue increases, the overall trajectory of improvement has not changed. The books have come from an \$18.4 billion deficit four years ago to show steadily rising surpluses.

Total Crown OBEGAL



Net core Crown debt



Budget 2015 forecasts show a deficit of \$684 million for 2014/15, \$2.2 billion less than the deficit in 2013/14. A surplus of \$176 million is expected in 2015/16, rising to \$3.6 billion in 2018/19.

Rather than cutting spending to chase a surplus, Budget 2015 maintains spending allowances of \$1 billion.

19.7% of GDP

Net debt in 2020/21, in line with the Government's key long-term objective

\$500 million

ACC levy cuts allowed for in Budget 2015

\$2.5 billion

Budget 2017 allowance provides options for modest tax reductions should conditions allow

\$790 million child hardship package

Budget 2015 includes a package to reduce hardship among children in New Zealand's poorest families, as the next step in the Government's commitment to address the long-term drivers of deprivation.

This package strikes a balance that offers more support to low-income families with children, while ensuring there remains a strong incentive for parents to move from welfare to work. From 1 April 2016 we are:

- **Strengthening work obligations for beneficiary parents.**

Most sole parents, and partners of beneficiaries, will have to be available for part-time work of 20 hours a week once their youngest child turns three.

- **Raising benefit rates for families.**

Benefit rates for families with children will rise by \$25 a week after tax. This is the first time since 1972 that core benefit rates have been increased by more than inflation.

- **Increasing Working for Families payments.**

Lower-income working families not on a benefit will get up to \$12.50 a week extra from Working for Families, and some very low-income working families will get \$24.50 extra.

- **Increasing Childcare Assistance.**

The subsidy rate for low-income families will increase from \$4 an hour to \$5 an hour for up to 50 hours of childcare a week per child. This covers both the Childcare Subsidy for pre-schoolers and the OSCAR subsidy for out-of-school care and school holiday programmes.

These new measures, which will have a meaningful impact for recipient families, follow last year's \$500 million children and families package which included free doctors' visits and prescriptions for children under 13.

Delivering better public services

Budget 2015 provides \$1.7 billion for New Zealand's public health services, increasing the Government's total health investment to \$15.9 billion in 2015/16.



\$1.3 billion

to DHBs for extra services, cost pressures and population growth



\$98 million

for elective surgeries and prevention and treatment of orthopaedic conditions



\$76 million

for hospices and 60 new palliative care nurses



\$12 million

to extend the bowel cancer screening pilot

Over \$680 million for early childhood, primary and secondary education, taking total spending to \$10.8 billion in 2015/16.



\$244 million

from the Future Investment Fund for new schools and classrooms



\$75 million

to enable more children to attend early childhood education for more hours



\$42 million

to boost schools' operational grants by 1 per cent



\$63 million

to continue teacher aide support for 1,500 additional students with special needs

Further social sector initiatives in Budget 2015 include:



\$50 million

for Whānau Ora navigators, to help families tackle problems together



\$32 million

to reduce welfare dependency, with extra case management to help people into work



\$59 million

for vulnerable children interventions, including Children's Teams



\$164 million

for front-line policing and crime prevention

Investing in a more productive and competitive economy

The Government's plan is set out in the Business Growth Agenda, and the Budget adds the following initiatives:



\$80 million

for research and development growth grants



\$25 million

to establish Regional Research Institutes for scientific research



\$113 million

for New Zealand's higher education system



\$32 million

to increase the number of labour inspectors and strengthen enforcement of employment law



\$37 million

to support councils implement resource management and water reforms



\$58 million

to manage increased demand for border services

\$939 million of new capital investment from the Future Investment Fund for priority infrastructure.



\$210 million

for the extension of Ultra-Fast Broadband



\$210 million

for KiwiRail to maintain the national rail network



\$137 million

on regional roads and urban cycleways



\$100 million

for Lincoln University to rebuild its science facilities

Budget 2015 savings initiatives include:

- Removing the \$1,000 KiwiSaver kick-start payment which has cost taxpayers \$2.5 billion since the scheme began.
- Introducing a new levy to fund passenger-related biosecurity and customs activities at our border. It is fairer that these costs fall on travellers.

Rebuilding Christchurch

As Christchurch moves deeper into the rebuild phase, Budget 2015 provides an additional \$108 million to support the recovery, taking the total contribution to \$16.5 billion. This will fund land clearances to make way for Anchor Projects, preparation of land before those constructions begin and ensuring the planned recovery work is implemented over the next four years. A full breakdown is provided overleaf.

Continuing our focus on housing

The Government is taking extra steps to bolster and enforce the tax rules on property. Subject to consultation, from 1 October this year:

- All non-residents and New Zealanders buying and selling any property other than their main home must provide a New Zealand IRD number.
- All non-resident buyers and sellers must provide their tax identification number from their home country, along with current identification requirements such as a passport.
- To ensure our full anti-money laundering rules apply to non-residents before they buy a property, non-residents must have a New Zealand bank account before they can get a New Zealand IRD number.
- A new “bright line” test will be introduced for non-residents and New Zealanders buying residential property. Under this new test, gains from residential property sold within two years of purchase will be taxed, unless the property is the seller’s main home, inherited from a deceased estate or sold as part of a relationship property settlement.

The Government will investigate introducing a withholding tax for non-residents selling residential property, to be introduced in mid-2016 after consultation. The Budget provides Inland Revenue with a further \$29 million for property tax compliance.

Other housing initiatives in Budget 2015 include:

\$35 million

to implement the social housing programme

\$35 million

to improve housing outcomes for Māori

\$52 million

for developing Crown-owned land in Auckland for housing development

KEY FACTS FOR TAXPAYERS

Who pays income tax... and how much?

Annual individual taxable income (\$)	Number of people		Tax paid	
	(000)	%	(\$m)	%
Zero	343	10	0	0
1 - 10,000	341	10	158	1
10,001 - 20,000	632	18	1,133	4
20,001 - 30,000	487	14	1,590	5
30,001 - 40,000	318	9	1,636	6
40,001 - 50,000	321	9	2,197	8
50,001 - 60,000	305	9	2,873	10
60,001 - 70,000	212	6	2,659	9
70,001 - 80,000	168	5	2,625	9
80,001 - 90,000	117	3	2,186	7
90,001 - 100,000	73	2	1,610	6
100,001 - 125,000	108	3	2,939	10
125,001 - 150,000	47	1	1,650	6
150,001+	85	2	6,012	21
All	3,556	100	29,268	100

Personal income tax scale

10.5c per \$1 on income up to \$14,000
17.5c per \$1 on income between \$14,001 and \$48,000
30c per \$1 on income between \$48,001 and \$70,000
33c per \$1 on income over \$70,000

How does a 1% point change affect tax?

Estimated effect on revenue in 2015/16 of a one-percentage point change in the growth of:	\$m
wages and salaries	300
taxable business profits	140
spending by households	175

What is the full-year cost of...?

	\$m
\$1 a week increase (in the hand) in NZ Super	35
\$1 a week increase (in the hand) in other benefits	15
\$1 billion increase in government debt	35

Ready reckoner for tax rate and base changes:
<http://www.treasury.govt.nz/government/revenue/estimatesrevenueeffects>

This table includes tax on NZ Superannuation and major Social Welfare benefits, but excludes ACC levies, Working for Families and independent earner tax credits. Only individuals of working age are included, ie, 16 years and above.

Data are projected for the year ending March 2016. Access to the Household Economic Survey data was provided by Statistics New Zealand under conditions designed to give effect to the security and confidentiality provisions of the Statistics Act 1975. The results presented here are the work of the Treasury, not Statistics New Zealand. Figures may not sum to total due to rounding.

Company tax rate

The company tax rate is 28%

GST rate

The GST rate is 15%

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PURL:
<http://purl.oclc.org/nzt/b-1755>

Treasury URL:
www.treasury.govt.nz/budget/2015/execsumm

Core Crown Revenue

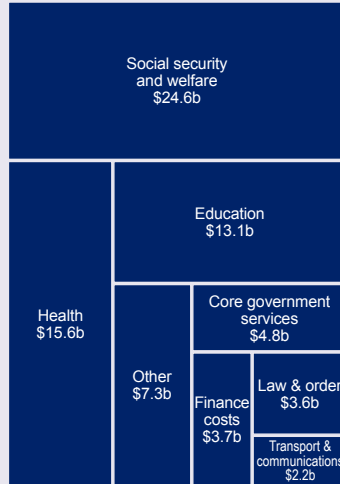
2015/16: \$74.9b (30.0% of GDP)



Other direct tax includes resident interest and dividend withholding taxes. Other indirect tax includes customs, excise and gaming duties. Note: Core Crown excludes Crown entities and State-owned enterprises.

Core Crown Expenses

2015/16: \$74.9b (30.0% of GDP)

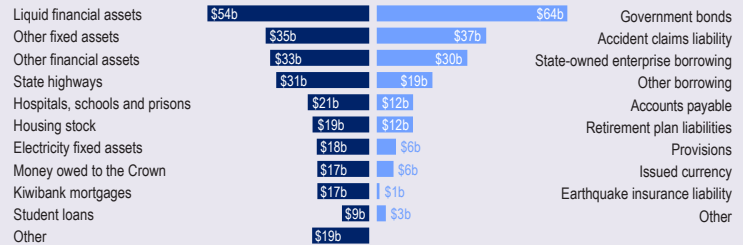


Social security and welfare includes New Zealand Superannuation, Jobseeker Support and Emergency Benefit, Supported Living Payment and Sole Parent Support.

Crown Balance Sheet – what we own and we owe

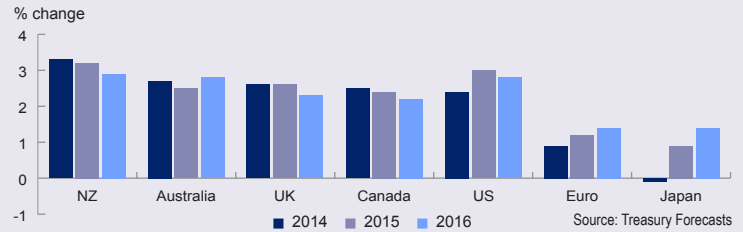
Assets (2015/16: \$273b)

Liabilities (2015/16: \$190b)

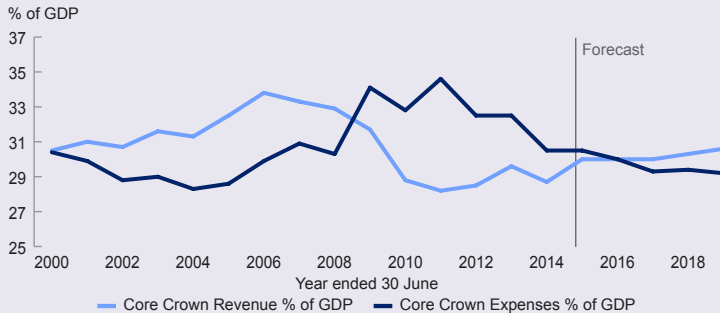


New Zealand's economic and fiscal performance is among the strongest in the developed world

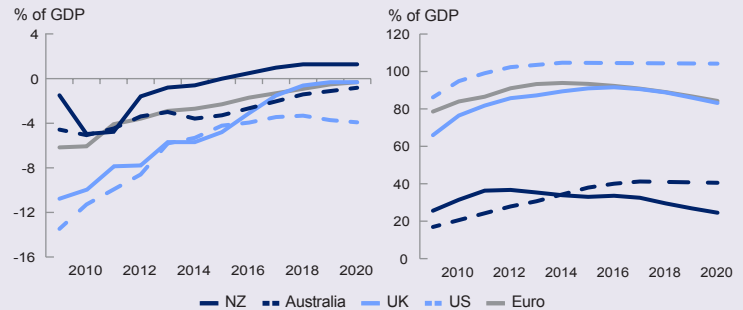
Forecast trading partner economic growth



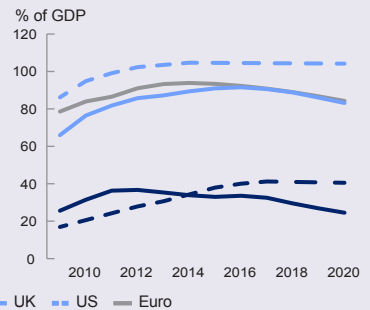
Revenue recovery continues, with ongoing spending restraint



General Government Fiscal Balance



General Government Gross Debt



Source: International Monetary Fund Fiscal Monitor, April 2015. These are internationally comparable definitions so differ slightly from fiscal indicators generally used in New Zealand.

Budget 2015 new operating spending, savings and revenue initiatives

\$million	2014/15	2015/16	2016/17	2017/18	2018/19	Total
Child Hardship Package	-	71	245	238	237	790
Health	-	406	435	417	402	1,660
Education	-	111	120	108	104	443
Other Social Sector	7	159	109	110	117	501
Business Growth Agenda	29	131	74	94	96	425
Canterbury Earthquake Recovery	68	97	6	3	2	176
Defence	3	28	79	92	92	294
Other	-	135	137	163	171	605
Contingency	-	178	304	385	406	1,274
Total spending	106	1,316	1,510	1,608	1,628	6,168

\$million	2014/15	2015/16	2016/17	2017/18	2018/19	Total
Reprioritisation and savings	(65)	(278)	(259)	(253)	(240)	(1,095)
Revenue	-	(85)	(211)	(357)	(357)	(1,010)
Total savings	(65)	(363)	(470)	(610)	(597)	(2,105)
Net new spending	42	953	1,040	998	1,031	4,063

Note: Numbers may not add to total in tables owing to rounding.

Budget 2015 allocation of the Future Investment Fund

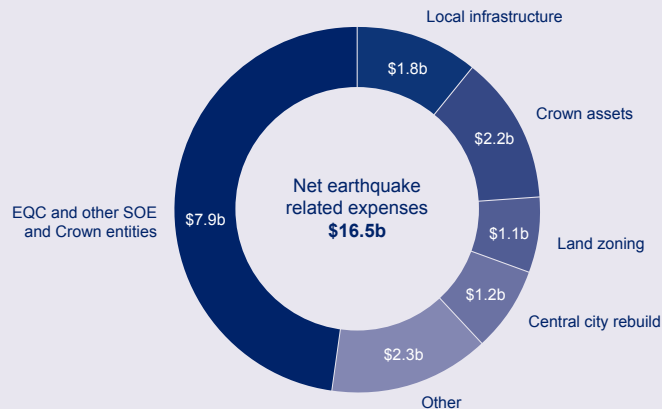
	\$million
Education	244
Ultra-Fast Broadband	210
KiwiRail	210
Lincoln University	100
Regional Highways	97
Waitangi Wharf	52
Other initiatives	26
Total allocated in B15	939

The Future Investment Fund was established to invest the money released by selling minority shareholdings in electricity companies and reducing the Government's stake in Air New Zealand.

Total Future Investment Fund = \$4.7 billion

B15 \$533m	Budget 2013 \$1,420m	Budget 2014 \$1,050m	Budget 2015 \$939m	Budget 2016 \$726m
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The Government's total contribution to the Christchurch rebuild since September 2010 is around \$16.5 billion

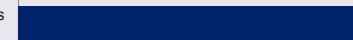


Making better use of data

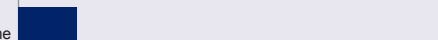
Estimated average future costs to age 35 (\$000)

by interactions with the welfare system and Child, Youth and Family (CYF), before age 13

Known to CYF and supported by benefits for three-quarters or more of the time



Not known to CYF and supported by benefits less than three-quarters of the time



0 50 100 150 200
Estimated average welfare and corrections costs up to age 35

Budget 2015 documents are available at www.treasury.govt.nz and www.budget.govt.nz, or can be viewed on the **NZ Budget App** available for iOS and Android Devices. See www.treasury.govt.nz/budget/app

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