BusinessNZ
GROWING PROSPERITY AND POTENTIAL

PO Box 1925
Wellington 6140
New Zealand

Tel: 04 496-6555
Fax: 04 496-6550
www.businessnz.org.nz

Memo

To:	BusinessNZ Membership
From:	Steve Summers/John Pask
Date:	30 May 2024
Subject:	**2024 Budget Summary**
Action Required:	For information

---

1. Background

Budget 2024, which has been declared by the Government to be a *Fiscally Responsible Budget*, was delivered against a backdrop of overall economic conditions New Zealand has not experienced for a very long time – possibly since the Global Financial Crisis.

Key economic indicators do not look pretty at present. Negligible economic growth (significantly negative when measured on a per capita basis), dismal productivity growth, rapidly rising debt and associated borrowing costs as a result of expenditure blow-outs over the last few years, and interest rates which will remain higher for longer as inflation levels, particularly non-tradeables (domestic inflation – e.g. rents, insurance and rates) continue to remain sticky and defy the Reserve Bank's efforts to get the inflation genie back in the bottle. Throw into the mix the record number of Kiwis exiting New Zealand (particularly our youngest and brightest) to Australia – means that New Zealand is losing some of its most productive human capital.

These sobering economic indicators are being reflected in numerous business and consumer opinion polls where pessimism is still persistent, with many New Zealanders facing a cost-of-living crisis while businesses are constrained in their ability to grow the economy through the development of infrastructure and use of natural resources, through regulatory barriers which have grown unabated over recent years.

At the international level, the picture is mixed and increasingly complex with several global challenges that continue to restrict overall global growth, including:

1. Ongoing inflationary pressure and geopolitical tensions which are also impacting on trade routes and supply chains, adding to shipping delays,
2. Lower growth rates in China, and
3. The moves key international powers are making towards greater nationalism. All these issues directly or indirectly affect New Zealand given this country's heavy economic dependence on trade.

Budget 2024 fundamentally covers three key themes:

- Prioritising investment in the public services that matter most to New Zealanders,
- Delivering personal income tax reduction for working Kiwis, and
- Delivering durable savings to support investments today and to get the Government books back into balance.

A key aspect of Budget 2024 is about delivering on election promises, while at the same time credibly setting the books on a path towards surpluses and a shrinking debt ratio. The mantra around doing more with less, along with reprioritisation, will likely be increasingly commonplace within the halls of Government.

BusinessNZ noted last year its disappointment that a real form of tax relief was not outlined or even signalled in the Budget. For the 2024 Budget it is front and centre, with changes to personal income tax thresholds (apart from the new top threshold which took effect in 2021), changes to the independent earner tax credit and the in-work tax credit means around 83 percent of New Zealanders will experience some level of tax relief.

While we support the tax cuts, BusinessNZ has long signalled the need for a tax policy setting that regularly adjusts personal tax rate thresholds against inflation.

There was some talk before the Budget by a number of commentators, including some economists, as to whether New Zealand could "afford" tax cuts given that there are questions around whether New Zealand currently has a structural deficit that may not necessarily be fixed as the economy improves.

New Zealand fundamentally does not have a problem with the amount of tax raised (which has increased rapidly over the last decade). On the other hand, it does have an expenditure problem that has not been reined in post-Covid. Hard working New Zealanders have been paying more and more tax over time as a result of entering into higher tax brackets as their nominal incomes rise (which economist call fiscal drag).

The Minister of Finance has pointed out that in 2011, the median-income earner was paying 15.5 percent of their salary in tax, and today, that figure is around 20.6 percent.

Regulatory policy, namely the quality of it, has become a key priority for the Coalition Government. The primary change has been the development of the Ministry for Regulation, which aims to strengthen the regulatory management system to improve regulatory quality. Its purpose is to lift quality across all regulatory systems and ensure agencies with regulatory responsibilities follow best practice. Given the adverse structural position New Zealand finds itself in, particularly around a lack of productivity growth, addressing the quality of regulation is a key way in which to boost living standards over the long term.

There were the usual pre-Budget announcements of expenditure increases over a range of important fields from defence, mental health services, public safety and rehabilitation services, social housing, through to increases in funding for Pharmac and the increased funding for Education in respect to structured learning and charter schools, along with funding for the recruitment and training of 1,500 teachers over the next four years.

Budget 2024 outlines a very challenging few years ahead as the Government focuses on getting the books in order. However, this could also set the tone where fiscal policy is set to be better aligned with monetary policy than it has been over the last few years.

Outlined below (Section 2) are some of the key economic and fiscal forecasts over the forecast period to 2028.

In Section 3 we take a brief look at key announcements in the Budget with a particular emphasis on issues related to business, followed by our general thoughts.

2. Budget 2024 Economic and Fiscal Outlook

The Economic and Fiscal Outlook out to 2028 provides, generally, an improving economic outlook over the range of key economic and fiscal economic indicators.

Key Points

- **Economic activity (GDP)** is expected to increase from -0.2 percent in the current year to 1.7 percent next year, and 3.2 percent in 2026 before growing at a slightly lower pace out to 2028.
- **Inflationary pressures** are expected to continue to moderate from 3.4 percent in the current year, to 2.2 percent next year before levelling out at 2.0 percent per annum out to 2028.
- **Unemployment** is expected to increase from 4.9 percent in the current year to peak at 5.2 percent in 2025 before declining in the outyears to reach 4.4 percent in 2028.
- **The current budget deficit** is expected to increase from $11.1 billion (2.7 percent of GDP) to $13.4 billion next year (3.1 percent of GDP) before recovering in the outyears. A small surplus is forecast in 2028 of $1.5 billion (0.3 percent of GDP).
- **Core Crown tax revenue** will increase from $119 billion in the current year (28.8 percent of GDP) to $148.2 billion (29.5 percent of GDP). It should be noted that tax revenue is down currently, due mainly to minuscule GDP growth (negative on a per capita basis).
- **Core Crown expenses** will increase from $138.3 (33.5 percent of GDP) to $156.4 billion (31.1 percent of GDP) by 2028.
- **Net Core Crown debt** will increase from $178.1 billion (43.1 percent of GDP) to 209.9 billion (41.8 percent of GDP).

Overall, these figures represent a long-term improvement in outcomes. Notwithstanding, it should be noted that the operating allowances for Budgets 2025 to 2027 are very tight. Managing within future allowances will be particularly challenging unless significant future expenditure savings are made in the outyears.

3. Key Announcements in the Budget

While there were a number of announcements over a range of areas, the following are key announcements over various subject areas of particular importance and relevance to business.

Tax

One of the key aspects to the 2024 Budget are the changes to the personal income tax (PIT) thresholds, which begin from 31 July. The table below shows the current and new brackets.

Current brackets $	New brackets $	Rate
0 – 14,000	0 – 15,600	10.5%
14,001 – 48,000	15,601 – 53,500	17.5%
48,001 – 70,000	53,501 – 78,100	30%
70,001 – 180,000	78,101 – 180,000	33%
180,001+	No change	39%

The Government has also announced changes to both the independent earner tax credit and the in-work tax credit, which combined with the changes to PIT means around 83 percent of New Zealanders will receive some form of tax relief. The last time there were changes to personal tax rates/thresholds that benefited taxpayers was 2010.

The total cost of tax relief is estimated to be $3.68 billion, which has been more than offset by savings and additional revenue options to the tune of $3.71 billion.

The Government has created a tax calculator for the tax changes that can be viewed at *budget.govt.nz/taxcalculator.*

The Government noted coalition discussions around the possibility of further changes to tax rates and thresholds to move more towards the overall flattening of the tax scale. However, it still remains a plan for the future once regular surpluses are achieved.

Also of note, the Government has increased funding for IRD tax audits and oversight work. While the total cost to Government is set at $29 million per year over the next 4 years, it is expected to bring in $99 million in its first year, then $201 million each year in subsequent years.

Regulation

Following the newly established Ministry for Regulation which was initially funded by funding that was transferred from the Productivity Commission and the Treasury, funding for the Ministry will increase, rising from $8.3m in 2024/25 to $14.3m by 2027/28.

The ongoing increase in funding takes into account its new functions, including regulatory service reviews and ensuring compliance and new regulatory principles. It will also look to expand existing functions, including quality assurance of regulatory impact statements.

Infrastructure & Regional Development

The Budget has a focus on infrastructure and regional development, partly as a result of the Coalition Agreement with NZ First in respect to the Regional Infrastructure Fund (RIF), and partly as a need to fund the much needed infrastructure deficit in order to get NZ moving.

Key expenditure includes:

- $4.1 billion of Crown Funding for the National Land Transport Fund (an increase of $1 billion on the amount previously signalled) – to accelerate priority projects including the Roads of National Significance.
- $1.2 billion for the Regional Infrastructure Fund (RIF). The RIF will have two project categories for funding allocation:
    - Resilience infrastructure projects that enhance a region's ability to withstand and adapt to stresses and shocks, such as flood protection works and energy security; and
    - Enabling infrastructure projects that support broader economic outcomes, such as increasing productivity in regional economies. The RIF will create Crown and regional assets, primarily through a mix of loan, equity, and other capital funding instruments, as well as some grant funding.
- More than $1 billion for the rebuild and recovery of communities affected by Cyclone Gabrielle and the 2023 Auckland Anniversary floods, including $939.3 million to repair roads.
- $200 million to support KiwiRail to carry out maintenance and renewals of the national rail network.

Education and Training

The Government is investing $2.93 billion extra operating and capital funding in schools and early childhood education, including $440.8 million reprioritisation.

- $1.48 billion to build new schools and classrooms and to maintain and upgrade existing ones.
- $477.6 million to continue the Healthy School lunches programme for two years.
- $516.4 million to support schools and early childhood education providers, plus $153.3 million to establish charter schools.
- $67 million to support schools to use the structured literacy approach when teaching reading.

Over the next four years, Budget 24 will support the training and recruitment of 1,500 teachers into the workforce. This will be at a cost of just over $50 million.

The funding will be used to:

- Offer 1200 School Onsite Training Programme (SOTP) places for aspiring teachers to train in the classroom. Funding is for four years and expands the programme to include primary and intermediate as well as secondary.
- Provide a $20,000 package per placement to make it easier for SOTP teachers to train by providing a stipend toward their living and training expenses and a tuition fees contribution. Schools will also receive a costs contribution for each trainee teacher they work with.
- Support 300 teachers to relocate to New Zealand by extending the funding for Overseas Relocation Grants.
- Fund 425 Overseas Finders Fees packages for schools to assist with the costs of recruiting overseas teachers.
- Fund 130 places per year in the BeTTER Jobs Programme that matches beginning and returning teachers to selected schools facing recruitment or retention challenges.
- Fund 670 Study Awards and support grants for current teachers offered each year to reflect current teacher salary rates for professional learning and development.

4. Overall BusinessNZ Thoughts and Reactions

Overall, BusinessNZ believes the 2024 Budget shows a responsible approach to spending in areas that have the potential to improve New Zealand's economic growth.

However, the fiscal situation is very tight. Therefore, the Government will need to be rigorous in its pursuit of keeping expenditure down if it hopes to return to a surplus by 2028.

The business community will be pleased to see a focus on much needed infrastructure investment, alongside prioritising education. It is also pleasing to see immediate benefit from long overdue tax cuts through changes to tax thresholds. However, we believe that is only the start of the journey towards attaining a more competitive, low-rate, broad based tax system.

To ensure New Zealand heads back on the right path, the Government needs to continually encourage business development at every turn. We believe one key element in that space is the newly established Ministry for Regulation that seeks to work better with business and able to affect change without the burden of unnecessary compliance costs.

The Budget is a good start, but the path towards eventual surplus involves an ongoing tight grip on expenditure.