



## COVID-19 NewsBrief – 15 May 2020

### Budget 2020

Yesterday we saw a budget like no others in recent times dominated by the Government's response to the COVID-19 pandemic, with much of the focus on injecting funds into the economy to create and sustain employment.

Budget 2020 amounts to a substantial injection of welfare across the economy and tax measures, which are a normal feature of any budget, were noticeably absent. However, tax matters have featured heavily in the COVID-19 response during the past six weeks.

This was, not unexpectedly, not a good news budget. Painting a sobering outlook for 2020 and beyond, Finance Minister Grant Robertson stated "this budget is about jobs". The Budget spend reflects that theme with infrastructure investment, business support, funding for housing development and construction, an environmental jobs package and an apprentices' package.

COVID-19 measures aside Budget 2020 priorities remain consistent with those outlined in the two prior year budgets namely:

- Mental health and welfare
- Child wellbeing
- Supporting Maori and Pacifica aspirations
- Building productivity through innovation
- Targeting sustainable investment in protecting the environment

A \$50 billion Response and Recovery Fund has been established to support the economy over the next 4-5 years. Of this \$13.9b has already been spent in the initial response to Covid-19, \$15.9b is expected to be spent in the immediate period ahead, leaving \$20.2b for future initiatives (cue election promises).

Government bond issues to fund this support package are forecast to increase to \$190billion over the next 5 years (from \$42billion previously), and net debt is forecast to rise to 53% of GDP (19% previously).

On current projections, the government budget is not forecast to return to surplus until 2028

### New COVID-19 Support Measures

New support measures for businesses affected by the COVID-19 crisis include:

- A targeted extension of the wage subsidy scheme. The extension is available for a further eight-week period (i.e. further to the 12-week period of the existing scheme) for those who have suffered a **50% reduction in turnover in the 30 days prior to application** as compared to 2019.

- Loan scheme for R & D programmes. A \$150 million short-term temporary loan scheme will be launched to incentivise businesses to continue R & D programmes that may be at risk due to COVID-19. The loans will provide one-off finance and will be administered by Callaghan Innovation.
- Further business support by way of a \$216 million boost to New Zealand Trade and Enterprise to assist exporting firms, and \$10 million earmarked for small businesses to improve their e-commerce capability.

### Other Highlights

Other announcements of note with an emphasis on stimulation of the economy include:

- A \$1 billion package to create 11,000 environment jobs (including regional environmental projects, biosecurity, weed and pest control, and additional Department of Conservation jobs).
- \$5 billion for the construction of 8,000 additional public and transitional homes which is expected to create new construction activity.
- A \$1.6 billion trades and apprentices' package to provide opportunities for New Zealanders of all ages to receive trades training. We see much of the intention behind this to be the facilitation of people who have recently lost their jobs in certain industries to re-train into new careers.
- A \$400 million injection into the Tourism Sector Recovery Plan.
- A \$3 billion contingency boost for additional infrastructure investment (i.e. on top of the \$12 billion infrastructure scheme announced in January)

Health funding also receives a boost in the form of a \$3.9 billion increase for DHB's over four years.

### Commentary

All in all, Budget 2020 was largely expected to be about a bandage to cover the COVID-19 injuries to our economy and in that sense it did not surprise.

What we did note as being absent from the budget was targeted initiatives to support small business recovery and growth but we can only hope that there will be further assistance in this context in coming months as the economy slowly gets moving again.

As noted above just over \$20 billion of the \$50 billion Response and Recovery Fund remains up the Finance Minister's sleeve and we can only hope it will be applied to targeted business growth initiatives.

Our analysis of the measures introduced to date is that apart from the wage subsidy, they have been somewhat ineffectual.

Specifically, the small business loan scheme, in respect of which applications through the IRD are now open, requires a declaration "*Your business or organisation is viable and ongoing, you have a plan to ensure your business or organisation remains viable and ongoing and you will hold information on file to verify this for audit purposes*".

In our view the type of business lodging an application for that scheme would find it very difficult to make such a declaration given the immediate challenges they are currently facing.

We caution that it would be advisable to qualify such declaration to say that the plan is based on best endeavours and is subject to a number of factors such as government assistance applying and others that are beyond the control of management e.g. a return of customers to the business.

As usual, if you have any questions or queries about the budget specifically or the various assistance measures available in general, please reach out.

**At Ecovis KGA we're privileged to have a team of experts with in-depth knowledge to assist with many of the challenges which businesses are facing right now. Please remember the firm is fully operational and we are here to help in any way we can - we are just a phone call or email away.**

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