

# The Treasury

## COVID-19 Information Release

April 2020

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## Budget Sensitive

Office of the Minister of Finance

Chair, Cabinet

# COVID-19: Overview of the Government's response and Economic Response Package

## Proposal

1. This paper provides an overview of the Government's initial response to the COVID-19 outbreak and seeks agreement to an Economic Response Package to support firms, workers and vulnerable households.

## Executive Summary

2. The economic outlook has deteriorated significantly as the COVID-19 outbreak has become a global pandemic, and we need to prepare for a major slowing in economic activity.
3. Our first priority is to support New Zealand's public health system, and the Minister of Health will seek the establishment of a \$500m contingency from Cabinet this week to support response to the outbreak
4. I propose that the response focus initially on the following elements:
  - 4.1 **A Health package**, including:
    - 4.1.1 support for the health system to enable the necessary public health response so New Zealand can slow any potential domestic outbreak of COVID-19
    - 4.1.2 [REDACTED] and
    - 4.1.3 A COVID-19 Leave payment scheme, which is a financial assistance scheme to incentivise self-isolation for people unable to work with a cost of up to \$126m for the initial 8 week period.
  - 4.2 **A Business and Worker Support package** to cushion the impact of the economic shock on firms and workers and support confidence in the near-term. This will include:
    - 4.2.1 A temporary wage subsidy, which will be proposed in a separate Cabinet paper

4.2.2 Employer support - officials are working with banks on potential options for working capital support, and developing advice as to how the Government could provide support for larger firms.

4.2.3 Support for worker redeployment of \$100 million across the forecast period - a separate Cabinet paper will propose to allocate \$28.2 million support for the Tairāwhiti region, made up of training, transport, administration, assurance and other project related services.

5. **Phase 1 of a Recovery package** to support beneficiaries and confidence during the early phase of economic recovery, comprising three elements:

- A \$25 per week increase to the rates of all main benefits
- An extension of the Winter Energy Payment period until the end of 2020, and an increase to the rates of payment of \$1,500 over the 2020 period
- Remove the hours test from the In Work Tax Credit

6. In addition, officials from the Ministry of Transport and the Treasury are undertaking work on an aviation sector package, and the Minister of Transport and I expect to make an initial set of announcements on this package on Tuesday 17 March.

7. We will need to consider Phase 2 of a Recovery package in future, to support confidence and a broader economic recovery. We will have the opportunity to make further decisions ahead of Budget 2020 if required.

8. Banks are well-placed to support businesses through this period – they hold significant buffers of excess capital and liquidity over regulatory minimums. The Reserve Bank has the ability to provide liquidity support to the banking system and will announce measures that it is taking to support financial markets and the economy on Monday, which I have been briefed on and the Treasury has been engaged with.

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## Background

10. We need to act now to slow the COVID-19 outbreak in New Zealand and flatten the curve. As such, our first priority has to be supporting our public health system.

11. We also need to announce an Economic Response Package in response to the economic outlook that has deteriorated significantly as the COVID-19 outbreak has become a global pandemic. The pace of events is moving rapidly. Many major economies are seeing exponential outbreaks of the virus, and instituting public health responses that will slow down the global economy.

12. This confluence of events will have immediate and ongoing impacts on external demand and economic confidence. In addition, domestic public health responses and the risk of eventual widespread community transmission in New Zealand will have major impacts on labour supply and significant sectors of the domestic economy.
13. Evidence of lower global business confidence have become more apparent and are reflected in sharp falls in equity markets. Given the scale of the economic disruption, there is a risk that global credit markets could be affected. A range of countries have announced economic measures, which in most cases are packages aimed at targeted support to affected households and firms. In addition, central banks around the world have also been rolling out measures to support liquidity and credit markets.
14. Reductions in travel and tourism, including due to our border decisions, will lead to a major economic downturn. The situation will continue to change quickly, but I expect that the economic shock will become even more severe. Broadly speaking, there are two ways in which this could occur:
  - The external demand shock intensifies. This could occur through increased disruption in a major trading partners such as Australia or China, or the United States as the world's biggest economy, a fall in global business confidence or extended disruption to financial markets
  - A COVID-19 outbreak in New Zealand leads to widespread containment and quarantine.
15. This requires an urgent economic response package to cushion firms and workers from the worst effects that can be implemented as soon as possible.

### **Our Economic Response Package**

16. As events unfold it appears that the size of the shock from COVID-19 could be larger than the Global Financial Crisis (GFC). The rapid deterioration in the economic outlook and the likelihood of widespread internal disruption suggest the need of fiscal policy to provide additional support to businesses and households.
17. Relative to the GFC, there will likely be more dependence on fiscal policy given that monetary policy is constrained. Between June 2008 and April 2009 the Official Cash Rate (OCR) fell by 5.75 percent. The OCR has been reduced today to 0.25%, and will be held there for at least a year. Conventional monetary policy will be able to provide limited further support.
18. Our economic response package needs to be designed for the nature of the disruption caused by COVID-19. This means a package with three immediate components:
  - Support to the health system that enables the necessary public health response so New Zealand can slow any potential domestic outbreak of COVID-19, including sick leave measures.

- A substantial package to cushion the impact of the economic shock on businesses and workers, and support confidence in the near-term.
  - The first phase of a broader recovery package to support household incomes through the shock and to spur the economic recovery.
19. The ultimate recovery package will go beyond the measures presented here. Having announced the package described in this paper, I intend to re-orient Budget 2020 to be the second phase of the broader recovery package. We also have the option of moving again before the Budget.
20. Subsequent phases of the recovery package will include rebuilding linkage with our international trading partners and looking for opportunities to work to our goal of a more productive, sustainable and inclusive economy. The next phases of the recovery package are not the subject of this paper but will be progressed as required and as the situation begins to normalise.
21. There are also four guiding principles for our response. Any measures the Government takes must be:
- timely,
  - fiscally sustainable,
  - targeted to those who need it, and
  - proportionate to the level of the economic shock.

### **Supporting New Zealand's public health system**

#### *Public health response*

22. The Minister of Health will seek the establishment of a \$500 million contingency from Cabinet this week to support the public health response to the outbreak. This will be established outside Budget allowances. At the same time, specific costs associated with the public health response (to scale up public communications and support, continuity of care in the community, and testing and tracing cases) will be agreed and appropriated from the contingency. This will allocate approximately half the contingency leaving the remainder available to respond to the requirements of the wider sector as need arises.
23. There is a recognition that further funding over and above the \$500 million contingency may be required as part of an 'All-of-Government' Strategic Response Plan to manage the public health response in the longer-term. Officials are still working to determine the scale of future costs.

### *Expanded provision of sick leave*

25. The COVID-19 Leave payment scheme is a financial assistance scheme to incentivise self-isolation by employees, self-employed and contractors which supports the Government's public health response to COVID-19, by encouraging self-isolation. It will provide support (through employers) for those people unable to work who are in self isolation, sick or caring. Employers will be expected to meet all of their sick leave and other employment expectations. The payment would be administered by MSD. To enable rapid roll-out, it is a simple payment that relies on high trust and therefore comes with consequent risks of some overpayment and other moral hazard risks. The scheme costs are highly uncertain, but estimated at \$126 million for 8 weeks (and could increase significantly with high take-up or where there is extension beyond 8 weeks). There is overlap with the wage subsidy scheme, but this is unavoidable given this scheme is supporting a public health objective, and so needs to have a broad coverage with limited exemptions.
26. There is an accompanying Cabinet paper to agree the design, including the rate of payment, and implementation for this scheme to provide financial assistance to incentivise and support those in self isolation or on sick leave due to COVID-19.

### **Business and worker support**

27. Supporting business and workers through the shock will limit the extent of the fall in output, and cushion the impact on households and firms most affected by COVID-19. The aim is to limit the disruption caused by public health measures implemented in New Zealand and internationally, as well as mitigate the negative confidence effects.
28. I am recommending a number of initiatives that will support these goals, some of which have already been announced and some of which are being worked on. These include:
  - training and redeployment options for affected employees,
  - a temporary wage subsidy scheme for workers and firms impacted by COVID-19,
  - working capital support for small and medium sized businesses, and
  - support for large enterprises.

29. I also propose including four tax initiatives as part of the business and worker support package:
- remission of use of money interest payments,
  - expansion of immediate expensing for low value assets,
  - reinstatement of depreciation deductions for commercial and industrial buildings, and
  - increasing the threshold for provisional tax.

#### *Training and redeployment for affected employees*

30. Within the Economic Response package we have set aside \$100 million across the forecast period to support worker redeployment. The first decision, set out in the Cabinet paper on a Tairāwhiti economic support package, will be considered by the Ad Hoc Cabinet Committee on COVID-19 Response (CVD) on Wednesday. This proposes \$28.2 million to support for the Tairāwhiti region, made up of training, transport, administration, assurance and other project related services.

#### *Wage subsidy scheme*

31. The wage subsidy scheme is a temporary scheme to support workers and firms impacted by COVID. Many employers run on low margins, and many employees are in relatively low wage work (hospitality, forestry, and accommodation). This limits the capacity of those employees and employers to plan for significant disruptions of this scale. There also appears to be a gap in the insurance market for products which cover large-scale pandemic events, because of the scale of costs that would need to be covered. There is a role for Government to act as an insurer of last resort for businesses that cannot reasonably self-insure.
32. Details of the scheme are laid out in a separate Cabinet paper. Key design settings are laid out below.

<b>Design</b>	<b>Proposed setting</b>
Sectors	All sectors eligible
Regions	All regions eligible
Disruption to business	30% decline in revenue compared to the year before (can include forecast revenue)
Scale of subsidy (per full time worker)	\$585.80 for full time per week or \$350 for part time
Duration of support	12 weeks (and then reviewed)
Duration of the scheme	12 weeks from the date of announcement (Tuesday 17 March)
Maximum subsidy per business	Cap of \$150,000
Other pre-qualifications	Business must have taken active steps to mitigate the impact of COVID-19 (eg. engaged with their bank) and sign a declaration form to that effect.
Administering agency	MSD, with support from IR



### *Working capital support for small and medium sized businesses*

33. Officials are meeting with banks to discuss the potential for future working capital support, including in the form of loan guarantees for businesses that face temporary credit constraints. Support provided by the Crown is best done in conjunction with banks, as they are best placed to understand their customers' needs and have infrastructure and processes in place to provide this support. The Crown is not well placed to implement direct lending facilities to a large number of small firms at pace.
34. A loan (or other types of debt facility) made available by banks to corporate entities but guaranteed by the Crown has the effect of de-risking the lending (from the bank's perspective). This should therefore allow working capital to be made available to firms that banks may not otherwise be prepared to provide.
35. It is critical that a scheme creates strong incentives for banks and firms to only use the scheme as a last resort, and where the borrowing business is expected to be commercially viable over the longer-term.
36. The NZBA has indicated banks will assist affected businesses. Depending on the customers' individual circumstances, potential options for support include:
  - reducing or suspending principal payments on loans and temporarily moving to interest-only repayments
  - helping with restructuring business loans
  - consolidating loans to help make repayments more manageable
  - providing access to short-term funding
  - referring individual customers to budgeting services.
37. There are risks involved in government taking action or indicating a response too early. It may discourage NZBA lenders, and firms from exploring alternative solutions already available to them.
38. Officials have begun working on options and are in discussions with banks to understand the nature of the problem, their capacity, what support they require, and the parameters of a guarantee scheme. Officials are meeting with banks on Monday, 16 March 2020.
39. In respect of any guarantee scheme, the government will seek to include the following key design features, which could be tailored to support Ministerial objectives:
  - Eligible firms must be otherwise viable but impacted by the COVID-19 shock
  - The scheme would cover new or increased borrowing
  - A maximum lending limit per firm
  - Banks would be required to pay a fee to the Crown to utilise the scheme
  - Time limited.



40. The design of the guarantee scheme will depend on Ministerial objectives and negotiations with the banks. The design of the scheme is scalable (i.e. could be designed to cover different size of businesses).
41. The scheme is likely to generate significant fiscal risk to the Crown, as an unknown proportion of borrowers may be unable to repay the loan. The fiscal risks can be managed to some extent through elements of the scheme design such as overall size, per firm limits, and terms and conditions.
42. I do *not* intend to make any public announcements on Tuesday on the specifics of any guarantee scheme given banks' partnership is essential and discussions with them are still ongoing.
43. However, I intend to publicly announce that officials are in discussions with banks to understand the extent of the problem, their capacity, what support they require, and possible government assistance. Officials will update me as work and negotiations with banks progress, and further public announcements may be made as work progresses.

#### *Support for large or complex businesses*

44. Some businesses may fall outside the scope of the proposed business and employee support package (including working capital support), such as large or complex businesses. I have asked the Treasury to develop options to allow the government to support larger businesses that have been materially impacted by COVID-19, where other avenues for support are not available, and the businesses are commercially viable over the longer-term. Any support would seek to mitigate the economic impact as adjustment occurs. I anticipate that any interventions will be case-by-case for larger businesses.

#### *Remission of use of money interest payments*

45. Use of money interest (UOMI) is used to compensate the Government for the time value of money lost due to taxpayers underpaying their tax. It applies to all tax types administered by Inland Revenue, as well as underpayments of tax that are withheld at source, and Working for Families debt.
46. A separate Cabinet paper from the Minister of Finance and Minister of Revenue (to be considered at Cabinet on Monday 16 March) proposes to give the Commissioner of Inland Revenue a time-limited discretion to remit UOMI if a taxpayer's ability to make a tax payment on time has been significantly adversely affected by the COVID-19 outbreak.
47. This measure will provide targeted relief to directly-affected taxpayers facing cashflow pressures and apply for all tax payments due on or after 14 February 2020. The eligibility criteria for interest remission would be aligned where possible with the eligibility criteria for the Wage Subsidy Scheme. Inland Revenue has produced communications materials to assist taxpayers to determine whether they are eligible for UOMI remission.

### *Expansion of immediate expensing for low value assets*

48. Immediate expensing allows businesses to fully deduct the cost of low value assets when they are purchased (rather than spreading the deductions over many years). The threshold for the low value asset write-off is currently \$500.
49. An increase in the threshold for writing off low value assets would reduce compliance costs for businesses and increase cash flow (by reducing tax to pay). It would also have the side-benefit of stimulating business purchases.
50. I recommend that we agree to a one-year temporary increase in the threshold to \$5,000, reverting to \$1,000 in the longer term, with a cost of around \$0.7 billion over the forecast period. This measure will apply for the 2020-21 income year (generally beginning on 1 April 2020).
51. The temporary nature of the increase will create an additional incentive for businesses to bring forward purchases (i.e. before the threshold reverts to a lower level in the longer term), which will help provide additional support to the economy in the recovery phase.

### *Reinstatement of depreciation deductions for buildings*

52. The previous Government abolished depreciation deductions for buildings in 2010. The recent Tax Working Group reviewed the international evidence and concluded that industrial and commercial buildings do depreciate. Therefore, the current rules regarding depreciation deductions create a distortion in the tax system that discourages investment in buildings.
53. A reintroduction of depreciation deductions for buildings would encourage business investment in the recovery phase, support productivity and enable the capital costs of the seismic strengthening of a building to be depreciated. It would also increase cashflow (by reducing tax to pay for building owners) and serve as a broader demonstration of Government support for the business sector.
54. I recommend that we agree to the reinstatement of depreciation deductions for buildings for commercial and industrial buildings (at a 2% diminishing value) for the 2020-21 income year (generally beginning on 1 April 2020). This will have a cost of around \$2.1 billion over the forecast period.

### *Increasing the threshold for provisional tax*

55. Provisional tax is paid in instalments during the year, instead of a lump sum at the end of the year. Provisional tax must be paid by all taxpayers who had to pay more than \$2,500 at the end of the year from their last return.
56. I recommend that we agree to increase the threshold for provisional tax from \$2,500 to \$5,000. This measure will take effect for the 2020/21 income year (generally 1 April 2020). This measure will reduce cashflow pressure and compliance costs for small taxpayers by allowing roughly 95,000 taxpayers to defer their tax payments.

## Recovery Package: Phase 1

57. The business and worker support measures and the public health response described above will offer a total of \$8.8 billion in support to the economy over the next five years. This could be substantially higher if either the wage subsidy or sick leave schemes are extended longer than anticipated.
58. This funding will enable a strong public health response, support businesses and workers through the immediate effects of the shock, and improve confidence in the near-term. Fiscal policy will need to further support the economy to ensure a recovery takes hold. This support should aim to boost household incomes, and provide support beyond the immediate effects of the shock.
59. Accordingly, I recommend that, in addition to the above, we implement an initial recovery package to boost incomes and support households through the first phase of the recovery. I recommend an initial recovery package comprising three elements:
- A \$25 per week increase to the rates of all main benefits
  - An extension of the Winter Energy Payment period until the end of 2020, and an increase to the rates of payment of \$1,500 total over the 2020 period
  - Remove the hours test from the In Work Tax Credit
60. This will only be the first phase of the package to support the recovery. The eventual package will need to go beyond this.

### *Main benefit increase*

61. In their final report, the Welfare Expert Advisory Group (WEAG) identified key problems with the current income support system and proposed a comprehensive package of substantial changes to income support. Officials' own assessment of WEAG's analysis supports the conclusion that benefit incomes are inadequate.
62. I propose increasing the rates of all main benefits by \$25 on 1 July 2020. MSD estimates that this would increase the incomes of approximately 350,000 low income families. Providing more support for all families receiving a main benefit would improve income adequacy at a population level and reduce poverty. It would ensure families on the lowest incomes have more income to meet their everyday living costs. This will also help as more people are likely to need income support in the coming months who have previously been in work.
63. Under current settings for Temporary Additional Supplement (TAS), the main benefit increase will result in some clients with high disability costs being financially disadvantaged. I propose introducing a Transitional Additional Payment (TAP) to ensure that no-one loses from the increase to main benefit rates.

### *In Work Tax Credit*

64. The IWTC is an income-tested cash payment of \$72.50pw (\$3,770 per year) to working families with children. To be eligible families must be “normally” working at least 20 hours a week (sole parents) or 30 hours a week (couples). This provision allows recipients to keep receiving the IWTC over short periods with fewer hours-worked, such as sick leave or vacation. However, it does not allow workers with unpredictable or variable hours, such as shift workers or those with multiple jobs, to receive the IWTC when their hours-worked drop below the threshold.
65. I propose extending eligibility for the IWTC to all families who are not receiving a main benefit and have some level of employment income each week, by removing the hours test. This is an important change as people may face a reduction of, or variable hours, in the wake of the COVID-19. This option would cost \$32 million per year.

#### *Winter Energy Payment supplement*

66. The Winter Energy Payment (WEP) is a non-taxable, non-income tested benefit paid with the client’s main benefit, New Zealand Superannuation or Veteran’s Pension to help eligible people meet their household heating costs during the winter months. WEP is paid automatically for 22 weeks between 1 May to 1 October and doesn’t affect other payments received by MSD (e.g. it is not counted as income for other assistance). The current rates of WEP are:
- Single people with no dependent children: \$20.46 a week (\$450 per year)
  - Couples, and people with dependent children: \$31.82 a week (\$700 per year)
67. I propose extending the WEP payment period to the end of 2020, and increasing the total payment received per recipient by \$1 500 over the 2020 period.
68. It is estimated that around 850 000 WEP recipients would benefit from this change. Once we include the partners of recipients, over 1 million people are expected to benefit.

#### **Further Economic Considerations**

##### *Impact on the aviation industry*

69. While critical for the preservation of public health, the enhanced border measures announced on 14 March will have a severely adverse impact on the aviation sector. We already know that the number of arrivals into New Zealand has fallen significantly as a result of the previous border restrictions as well as the global uncertainties around COVID-19. The enhanced measures will pose significant challenges to the viability of international air travel to and from New Zealand over the short to medium term.
70. I consider that the Government has a key role to play in supporting the aviation sector in order to: maintain connectivity for critical freight flows (for example, pharmaceuticals, key time critical machinery); prevent those working in the aviation sector from bearing the economic brunt of the border restrictions; and encourage key

airlines to remain in New Zealand so that when borders re-open we can quickly recover international connections and tourism.

71. Officials from the Ministry of Transport and the Treasury are undertaking work on an aviation sector package, which comprises three areas
  - Support for Air New Zealand
  - Support for airports
  - Maintaining key freight flows and assisting the return of international connections
72. These work areas are inter-related: support for airlines and services will provide benefits for airports, maintaining freight flows may also provide support to Air New Zealand, and there may be relief measures which provide benefits to a range of aviation operators.
73. This work will have significant linkages with other parts of the Government's economic response, particularly the business and worker support package. I expect officials to consider these in order to ensure Ministers are able to take fully informed decisions.
74. I have asked the Minister of Transport, Hon Phil Twyford, in consultation with me, to take responsibility for leading work on the aviation package. However, issues relating to the Crown's ownership interest in entities such as Air New Zealand will remain the responsibility of shareholding Ministers.
75. The Minister of Transport and I expect to make an initial set of announcements on the aviation sector package on Tuesday 7 March, focussed on Air New Zealand. At the same time a broader suite of measures will be signalled to come in a few days after discussions with key aviation stakeholders. This will provide time for officials to work with airlines and airports to understand impacts, what is happening with services, and potential support mechanisms.

#### *Impact on financial markets*

76.
77. Banks currently hold significant buffers of excess capital and liquidity over regulatory minimums.
78. The Reserve Bank is working closely with me and the Treasury. It has today lowered the Official Cash rate and announced a range of measures to support liquidity, including delaying new bank capital requirements by a year. It is actively supporting liquidity in domestic wholesale markets and is monitoring this regularly. Longer-term, banks may be impacted by a rise in loan defaults which may be influenced by a sustained rise in unemployment.



79. The Reserve Bank is in regular contact with banks and is setting up enhanced frameworks to get data and information from banks on liquidity and loan portfolio performance. The Reserve Bank will keep me updated on emerging pressures that may affect the stability of the wider financial system.

#### *Impact on our fiscal strategy*

80. The fiscal position will deteriorate significantly as a result of the shock from COVID-19. This will be driven in part by the automatic stabilisers, which will see welfare payments increase and tax receipts reduce. Further deterioration will come as a result of the fiscal cost of measures implemented in this package.
81. Our Budget Responsibility Rules always included the caveat of a major global economic shock. There is no doubt that is the situation we now face. Given our low levels of net debt and low interest rates I propose to look through the near term fiscal impact of COVID-19. This would see a near term period of fiscal deficits. We would expect core Crown debt to increase in the near-term beyond the range of 15-25% of GDP.
82. These events will exacerbate existing medium term fiscal challenges. Once we are through the crisis, we will need a fiscal rebuilding period to demonstrate a commitment to return to surplus and prudent debt levels within a reasonable period of time.
83. As noted above, after announcing the package described in this paper, I intend to re-orient Budget 2020 to be the second phase of the broader recovery package.

#### *Borrowing implications*

84. The deterioration in the fiscal accounts will require an increase in government borrowing. It is appropriate that we provide transparent communication to financial markets about the government's borrowing intentions. Treasury will provide advice to me on the implications of the package for the government borrowing programme ahead of any announcement on this package, and subject to my approval, will make market communications on borrowing intentions shortly after the package is announced publicly.

#### **Coordination with Budget 2020**

85. The proposals in this paper (and other related proposals that are part of the Economic Response which are in other Cabinet papers) are being treated outside of budget allowances, with a corresponding impact on the operating balance and net core Crown debt.

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86. I have also directed officials to review the initiatives submitted as part of Budget 2020, to ensure that the Budget is targeted to support New Zealand's response and recovery.

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87. It is likely that the Government may need to make policy decisions on COVID-19 with fiscal costs once the Budget moratorium has commenced. I am working through a process for how spending can be approved during the Budget moratorium.

### Administrative Implications

88. The tax changes proposed will generate additional contacts of a complex nature for Inland Revenue as people seek advice on how these changes impact their situation.
89. Inland Revenue is already under pressure to manage customer demand from the upcoming 2020 auto-calculation period, as well as any implications from Business Transformation Release 4 changes. There are additional expected cumulative impacts that Inland Revenue will also need to manage (including from Budget 2020 items, any further COVID-19 responses, and the impact of reduced baselines due to the reduction of time-limited funding).
90. To manage this additional demand, Inland Revenue will need to reprioritise and manage customer demand.
91. The changes will also require community and stakeholder engagement.
92. The Wage Subsidy Scheme will add to the administrative burden of the Ministry of Social Development, which is already facing an increased workload as a result of COVID 19. I am seeking Cabinet's agreement that I finalise additional resources for the Ministry in consultation with the Minister of Social Development.

### Initial recovery package

93. There may be administrative implications resulting from the main benefit changes. These are being established, and will be agreed by the Minister of Finance and relevant portfolio Ministers.
94. Increasing the existing rate of WEP is relatively simple, compared to other income support options, as it is increasing an existing rate in the system and does not have any flow-on implications to other MSD payments.

### Financial Implications

95. The fiscal cost of the economic response package will be around \$12.5 billion. The costs are highly uncertain and will depend on design of individual initiatives. Indicative costs for the three components of the economic response package are set out below:

Fiscal cost (\$ million)	2019/20	2020/21	2021/22	2022/23	2023/24	Total over forecast period \$million
Public Health Response	-626	-13	-62	-62	-62	-824

Treasury:4255083v1



Supporting workers and businesses	-5,200	-88	-1,856	-186	-689	-8,019
Recovery package, phase 1	-314	-1,532	-616	-617	-598	-3,679
<b>Total package</b>	<b>-6,144</b>	<b>-1,633</b>	<b>-2,534</b>	<b>-865</b>	<b>-1,349</b>	<b>-12,522</b>

96. The health contingency, <sup>33</sup> and sick leave measures, and some of the business and worker support options discussed in this paper (wage subsidies and remission of use of money interest) are the subject of separate Cabinet papers. The financial implication of those measures are included in the table for completeness, although recommendations to give effect to those initiatives are included in the respective papers.

### **Tax measures**

97. UOMI will be able to be remitted for tax payments due on or after 14 February 2020. The other three tax measures in this paper will be effective for the 2020-21 income year (generally beginning on 1 April 2020). The benefits of business confidence should be immediate, and the cashflow benefits will begin flowing within weeks. The total cash cost to the Crown will total around \$1.4 billion in the 2020/21 fiscal year. However, because of when taxpayers are required to make tax payments, and file their tax returns, there is a lag between when the benefit is realised by taxpayers and when the fiscal costs are reflected in the Government's fiscal accounts. A consequence of this is the revenue impact on the Government's accounts peaks in the 2021/22 fiscal year before stabilising in following years.

### **Expansion of immediate expensing for low value assets**

98. Officials have prepared early estimates of the potential fiscal impacts of the options for expanding immediate expensing for low value assets. These estimates have been produced under significant time pressure and should be treated as indicative only. Officials will continue to refine these estimates.

	<b>\$m increase / (decrease) in revenue</b>					
	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>	<b>Total over forecast period</b>
Temporary increase to \$5,000 for one year, reverting to \$1,000 thereafter	-	-50	-823	347	-141	-667

### **Reinstatement of depreciation deductions for buildings**

99. Officials have prepared preliminary estimates of the fiscal impact of for reinstating depreciation deductions for buildings. These estimates have been prepared under time pressure and are indicative only. Officials will continue to refine these estimates.

	<b>\$m increase / (decrease) in revenue</b>					
	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>	<b>Total over forecast period</b>
	-	(35,000)	(1,030,000)	(530,000)	(545,000)	(2,140,000)

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Reinstatement of depreciation deductions for industrial & commercial buildings						
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### *Remission of UOMI payments*

100. The proposal to give the Commissioner of Inland Revenue discretion to remit UOMI in response to the COVID-19 outbreak will result in foregone Crown revenue. This is because, absent this measure, there would have been an increase in UOMI payments to the Crown from COVID-19 affected taxpayers. The amount of foregone revenue is not able to be quantified at this time.
101. However, the negative revenue implications from the proposal will not be reflected as a fiscal cost in the Crown accounts. This is because the Government's fiscal forecasts currently do not include COVID-19 related UOMI charges, so their remission does not impact the fiscal position.
102. There is also a number of risks associated with this proposal, including:
- This measure decreases the incentive to pay tax when it falls due. This could result in some taxpayers facing a larger tax bill at a later date, which they could be unable to pay. This could result in some core tax not being recoverable.
  - This measure could allow some COVID-19 affected taxpayers that would face UOMI penalties under ordinary economic circumstances to not pay UOMI. This will reduce the interest receipts received by the Crown.
  - This measure could lead to the deliberate underpayment of tax in situations where taxpayer are actually able to pay in full and on time (i.e. they do not qualify for the remission), with delays potentially crossing fiscal years.
103. These risks will impact on the fiscal position if they materialise. We are unable to quantify the materiality of the potential impacts.

### *Increasing the threshold for provisional tax*

104. Increasing the provisional tax threshold from \$2,500 to \$5,000 will have an operating impact of \$12 million over the forecast period (due to lost penalties and interest). It will also cause a one-off increase in net debt of \$350 million in 2020/21 (due to differences in the timing of tax payments).

	\$m – increase/(decrease)					
	2019/20	2020/21	2021/22	2022/23	2023/24	Total over forecast
Non-tax revenue:						
Penalties and interest	-	(3.000)	(3.000)	(3.000)	(3.000)	(12.000)

## Initial recovery package measures

### Main benefit increase

105. This paper seeks funding for a total of \$1,878.596 million for an increase to main benefits of \$25 per week from 1 July 2020, made up as follows:

- net \$431.243 million for Benefits or Related Expenses (breakdown below) in 2020/21 from outside Budget allowances
- net \$489.254 million for Benefits or Related Expenses (breakdown below) in 2021/22 from outside Budget allowances
- net \$487.167 million for Benefits or Related Expenses (breakdown below) in 2022/23 from outside Budget allowances
- net \$470.932 million for Benefits or Related Expenses (breakdown below) in 2023/24 and outyears from outside Budget allowances.

106. Additional funding is needed for MSD to administer these changes. The exact amount is being calculated and this paper seeks agreement to the approval of this funding being delegated to joint Ministers.

Vote Social Development	\$m increase/(decrease)					
	2019/20	2020/21	2021/22	2022/23	2023/24	Outyears
<b>Minister for Social Development</b>						
<b>Benefits or Related Expenses:</b>						
Childcare Assistance	-	(0.262)	(0.360)	(0.576)	(0.567)	(0.567)
Hardship Assistance	-	(4.379)	(3.793)	(2.780)	(1.074)	(1.074)
Jobseeker Support and Emergency Benefit	-	245.380	292.694	281.021	255.168	255.168
Sole Parent Support	-	86.638	89.051	90.997	93.479	93.479
Supported Living Payment	-	125.093	129.498	133.556	137.798	137.798
Youth Payment and Young Parent payment	-	4.522	4.653	4.835	5.113	5.113
<b>Minister of Housing</b>	-	-	-	-	-	-
<b>Benefits or Related Expenses:</b>						
Accommodation Assistance	-	(25.478)	(22.488)	(19.887)	(18.985)	(18.985)
<b>Total Operating</b>	-	<b>431.243</b>	<b>489.254</b>	<b>487.167</b>	<b>470.932</b>	<b>470.932</b>

### Winter Energy Payment

107. This paper seeks funding for a total of \$1,301.435 million for an increase to the Winter Energy Payment of \$1,500 and an extension of the Winter Energy Payment until the end of 2020, as set out below:

- net \$314.318 million for Benefits or Related Expenses (breakdown below) in 2019/20 from outside Budget allowances

- net \$978.117 million for Benefits or Related Expenses (breakdown below) in 2020/21 from outside Budget allowance

	\$m - increase/(decrease)					
Vote Social Development	2019/20	2020/21	2021/22	2022/23	2023/24	Outyears
Minister for Social Development Benefits or Related Expenses:						
Winter Energy Payment	314.318	987.117	-	-	-	
<b>Total Operating</b>	<b>314.318</b>	<b>987.117</b>	<b>-</b>	<b>-</b>		<b>-</b>

108. Additional funding is needed for MSD to administer these changes. The exact amount is being calculated and this paper seeks agreement to the approval of this funding being delegated to joint Ministers.

#### *In Work Tax Credit*

109. The expected financial implications of the proposed changes to the In Work Tax Credit are \$32 million per annum. This cost is subject to confirmation in detailed policy work to come. The final cost will be approved by joint Ministers alongside the administrative costs for other income support initiatives.

### **Legislative Implications**

#### *Tax measures to support businesses and workers*

110. Legislation is required to give effect to the tax changes to support businesses and workers.

#### *Initial recovery package*

111. An increase to main benefit rates can be implemented via an Order in Council.
112. Changes to the In Work Tax Credit hours test require changes to primary legislation.
113. Changes to the payment period for the Winter Energy Payment require changes to primary legislation before 1 May 2020. An increase to WEP rates can be completed via an Order in Council.

### **Regulatory Impact Statement**

114. No Regulatory Impact Statement has been prepared due to the urgency with which the measures have been developed.

## Consultation

115. Consultation has occurred with Ministers and agencies with an interest in the proposals outlined in this paper.

## Communications

116. The initiatives in this paper can form part of the Government's broader communications around its COVID-19 response.

## Proactive Release

117. I intend to proactively release this Cabinet paper following Cabinet's consideration. This may be released as part of the Budget proactive release process

## Recommendations

The Minister of Finance recommends that Cabinet:

1. note that the economic outlook has deteriorated significantly as the COVID-19 outbreak has become a global pandemic, and we need to prepare for a major slowing in economic activity;
2. note that the situation makes an economic response package essential to address immediate public health risks, maintain economic confidence, cushion the impact of the economic shock and support the economic recovery
3. note that our economic response will have three components:
  - 3.1 support to the public health system, including sick leave measures to support incentives for self-isolation
  - 3.2 a substantial business and worker support to cushion the near-term impact on firms and workers and support confidence
  - 3.3 a recovery package to support beneficiaries and confidence during the early phase of economic recovery

## Supporting New Zealand's public health system

Public health response and

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*Expanded provision of sick leave*

5. note that there is an accompanying Cabinet paper to agree the design and implementation for a new scheme to provide financial assistance to incentivise and support those in self isolation or on sick leave due to COVID-19;

### ***Business and Worker Support Package***

6. note that supporting businesses and workers through the shock will limit the extent of the fall in output, and cushion the impact on households and firms most affected by COVID-19
7. note that I recommend a number of initiatives that will support businesses and workers
  - 7.1 training and redeployment options for affected employees,
  - 7.2 a temporary wage subsidy scheme for workers and firms impacted by COVID-19,
  - 7.3 support for large enterprises, and
  - 7.4 working capital support for small and medium sized businesses.
8. note that I also recommend including four tax initiatives to support business cash flow and confidence
  - 8.1 remission of use of money interest payments,
  - 8.2 expansion of immediate expensing for low value assets,
  - 8.3 reinstatement of depreciation deductions for buildings, and
  - 8.4 increasing the threshold for provisional tax;
9. note the estimated costs of the business and worker support package could be around \$6.3 billion over the next five years;
10. note the costs of the business and worker support package will have a direct impact on the operating balance and net core Crown debt;
11. note further work is required to confirm the exact costings of the policies within the business and worker support package;
12. invite the Minister of Finance to report back to Cabinet on the outcome of the further work to confirm the costings of all the business and worker support package;

### ***Training and redeployment for affected employees***

13. note that the above package includes \$100 million across the forecast period for Worker Redeployment;
14. agree that the Economic Response Package includes support for Worker Redeployment;



15. agree to establish the following new appropriation;

Vote	Appropriation Minister	Title	Type	Scope
Business, Science and Innovation	Minister of Regional Economic Development	Regional Economic Development: COVID-19 Response: Worker Redeployment	Non-Departmental other expenses	This appropriation is limited to the support package for worker redeployment and training.

16. approve the following changes to appropriation to support Worker Redeployment, with a corresponding impact on the operating balance and net core Crown debt;

Vote Business, Science, and Innovation  Minister for Regional Economic Development	\$m – increase/(decrease)				
	2019/20	2020/21	2021/22	2022/23	2023/24 & Outyears
Worker Redeployment package	(100)	-	-	-	-

17. agree that the proposed changes to appropriations for 2019/20 above be included in the 2019/20 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply;

#### *Wage subsidy scheme*

18. note Cabinet is considering the introduction of a temporary wage subsidy scheme in a separate Cabinet paper;

#### *Working capital support for small and medium sized businesses*

19. note the Treasury will progress discussions with the banks on the design of a working capital support scheme for firms facing temporary credit constraints due to the economic impacts of COVID-19, to ensure we are prepared should a solution be required;



20. note that announcements should avoid committing the Government to a specific solution until the support of the banks has been secured;
21. note larger firms and financial institutions have more complex business models, and alternative courses of action, suggesting it will take time to assess the options that these firms have available;

*Support for large or complex businesses*

22. note Treasury is developing advice as to how the Government could provide support for larger firms;

*Remission of use of money interest payments*

23. note that Cabinet is also considering a separate proposal from the Minister of Finance and Minister of Revenue to give the Commissioner of Inland Revenue a time-limited discretion to remit UOMI if a taxpayer's ability to make a tax payment on time has been significantly adversely affected by the COVID-19 outbreak.

*Expansion of immediate expensing for low value assets*

24. agree to a one-year temporary increase in the low value asset write-off threshold to \$5,000 for the 2020-21 income year, reverting to \$1,000 for the 2021/22 and later income years; and
25. note the following changes as a result of the decision in recommendation 24 above, with a corresponding impact on the operating balance and/or net core Crown debt:

	\$m – increase/(decrease)				
<b>Vote Revenue</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24 &amp; Outyears</b>
<b>Minister of Revenue</b>					
Tax Revenue:	-	(50.000)	(823.000)	347.000	(141.000)

*Reinstatement of depreciation deductions for commercial and industrial buildings*

26. agree to apply a 2% diminishing value rate to industrial and commercial buildings for the 2020-21 and later income years; and
27. note the following changes as a result of the decision in recommendation 26 above, with a corresponding impact on the operating balance and net core Crown debt:

	\$m – increase/(decrease)				
<b>Vote Revenue</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24 &amp; Outyears</b>
<b>Minister of Revenue</b>					
Tax Revenue:					
Income tax	-	(35.000)	(1,030.000)	(530.000)	(545.000)

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<b>Total Operating</b>	-	<b>35.000</b>	<b>1,030.000</b>	<b>530.000</b>	<b>545.000</b>
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*Increasing the threshold for provisional tax*

28. agree to increase the provisional tax threshold from \$2,500 to \$5,000 for the 2020-21 and later income years; and
29. note the following change as a result of the decision in recommendation X above, with a corresponding impact on the operating balance:

	\$m – increase/(decrease)				
<b>Vote Revenue</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24 &amp; Outyears</b>
<b>Minister of Revenue</b>					
Non-tax revenue:					
Penalties and interest	-	(3.000)	(3.000)	(3.000)	(3.000)
<b>Total Operating</b>	-	<b>3.000</b>	<b>3.000</b>	<b>3.000</b>	<b>3.000</b>

30. note that agreeing to recommendation 28 will have a one-off cash cost, increasing net core Crown debt by \$350 million in 2020/21;

***Recovery Package: Phase 1***

31. note that phase 1 of a Recovery package will support beneficiaries and confidence during the early phase of economic recovery;

***Benefit Increase***

32. agree that on 1 July 2020 the after-tax weekly rate of the following benefits should increase by \$25:
  - 32.1 Jobseeker Support
  - 32.2 Sole Parent Support
  - 32.3 Supported Living Payment
  - 32.4 Young Parent Payment
  - 32.5 Youth Payment
  - 32.6 Emergency Benefit;
33. note that the Minimum Family Tax Credit for working household on the lowest incomes will automatically increase on 1 April 2021 to maintain the margin between benefit and work income

34. note that due to complex interactions in the tax and transfer systems, a small number of families will be unintentionally financially disadvantaged as a result of the benefit increase
35. agree to establish a Ministerial Welfare Programme (under the Social Security Act 2018) to compensate those who are unintentionally financially disadvantaged as a result of the Package through the establishment of a transitional fund;
36. invite the Minister for Social Development to establish a Ministerial Welfare Programme to give effect to the decisions referred to in recommendation above;

*Increases to the Winter Energy Payment*

37. agree that the annual rates of payments under the WEP (to be paid in equal instalments) for 2020 will be;
  - 37.1 \$1,950 for single people with no dependent children, paid from 1 May for a period of 35 weeks (up from the current \$450 for 22 weeks from 1 May); and
  - 37.2 \$2,200 for couples or single people with dependent children, paid from 1 May for 35 weeks (up from the current \$700 for 22 weeks from 1 May)
38. note that changes to the WEP period combined with changes to payment rates requires a change to the Social Security Act 2018 ahead of 1 May 2020;
39. note that the WEP changes proposed in recommendation 37 above will apply in 2020 only and current setting will resume in 2021 and subsequent years;
40. agree to increase spending to provide for costs associated with the policy decisions in recommendations 37 above with the following impacts on the operating balance and net core Crown debt:

	\$m - increase/(decrease)					
<b>Vote Social Development</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>	<b>Outyears</b>
Operating Balance Impact	314.318	1,418.630	489.254	487.167	470.932	470.932
Debt Impact	-	-	-	-	-	-
No Impact	-	81.790	95.223	97.992	95.400	95.400
<b>Total</b>	<b>314.318</b>	<b>1,500.420</b>	<b>584.477</b>	<b>585.160</b>	<b>566.331</b>	<b>566.331</b>

41. approve the following changes to appropriations to give effect to the policy decision in recommendations 37-40 above:

	\$m - increase/(decrease)					
<b>Vote Social Development</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>	<b>Outyears</b>
<b>Minister for Social Development Benefits or Related Expenses:</b>						
Childcare Assistance	-	(0.262)	(0.360)	(0.576)	(0.567)	(0.567)
Hardship Assistance	-	(4.379)	(3.793)	(2.780)	(1.074)	(1.074)

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Jobseeker Support and Emergency Benefit	-	283.616	342.669	332.441	302.570	302.570
Sole Parent Support	-	104.778	107.747	110.175	113.198	113.198
Supported Living Payment	-	150.507	156.049	160.951	166.077	166.077
Winter Energy Payment	314.318	987.117	-	-	-	-
Youth Payment and Young Parent payment	-	4.522	4.653	4.835	5.113	5.113
<b>Minister of Housing Benefits or Related Expenses:</b>						
Accommodation Assistance	-	(25.478)	(22.488)	(19.887)	(18.985)	(86.838)
<b>Total Operating</b>	<b>314.318</b>	<b>1,500.420</b>	<b>584.477</b>	<b>585.160</b>	<b>566.331</b>	<b>498.478</b>

42. agree that the proposed changes to appropriations for 2019/20 above be included in the 2019/20 Supplementary Estimates and that, in the interim, the increases be met from Imprest Supply;
43. agree that expenses incurred under **recommendation 41** above will be established outside Budget allowances, with a corresponding impact on the operating balance and net core Crown debt;
44. note that additional funding is needed for MSD to administer these changes. The exact amount is being calculated and a final decision will be delegated to Ministers.
45. delegate authority to the Minister of Finance and the Minister for Social Development to appropriate funding for the administration of these changes

#### *In Work Tax Credit*

46. agree to remove the hours tests from the IWTC to allow families who are not receiving a main benefit and have some level of employment income each week, **commencing 1 July**;
47. agree that the legislative amendments required to give effect to the tax proposals in **recommendations 24, 26 and 28** be included in a Bill to be introduced as soon as practicable;
48. invite the Minister of Revenue to instruct Inland Revenue to draft the necessary amendments to give effect to the proposals recommended in this paper;
49. agree to delegate authority to the Minister of Finance and Minister of Revenue to make decisions on the detailed design of the tax proposals recommended in this paper and to introduce a Bill containing these proposals as soon as practicable;
50. delegate authority to the Minister of Finance and Minister of Revenue to make decisions to increase funding for the IWTC, and any changes to appropriations, as required;

#### **Further economic considerations**



### *Impact on the aviation industry*

51. note that officials from the Ministry of Transport and the Treasury are currently undertaking work on an aviation sector package, including support for Air New Zealand;
52. agree that the Minister of Transport, in consultation with the Minister of Finance, have lead responsibility for work on the aviation sector package, except for issues relating to the Crown's ownership interest in commercial entities which will remain the responsibility of shareholding Ministers;

### *Impacts on financial markets*

53. note banks currently hold significant buffers of excess capital and liquidity over regulatory minimums;
54. note on Tuesday the Reserve Bank will announce a one year deferral to planned increases in capital requirements;

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56. note the Reserve Bank is in regular contact with banks, is setting up enhanced frameworks to get information from banks and will keep me updated on emerging pressures that may affect the stability of the wider financial system;

### *Fiscal strategy implications*

57. note that the fiscal position will deteriorate significantly as a result of the shock and the proposals in this paper, and that net core Crown debt will likely rise above 25% of GDP
58. note that a deterioration in the fiscal position is appropriate given the economic circumstances, but that tight fiscal control will be required to demonstrate that will be able to return to surplus and prudent levels of debt in a reasonable period of time;

### *Borrowing implications*

59. note that, subject to my approval, communication on the borrowing implications of the package will be announced by the Treasury around the time the initiatives in the cabinet paper are released publically

### *Coordination with Budget 2020*

60. note that, after announcing the package described in this paper, I intend to re-orient Budget 2020 to be the second phase of the broader recovery package;

### *Legislative Implications*

#### *Legislative amendments for tax measures*

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61. agree that the legislative amendments required to give effect to the tax proposals in recommendations 24, 26 and 28 be included in a Bill to be introduced as soon as practicable;
62. invite the Minister of Revenue to instruct Inland Revenue to draft the necessary amendments to give effect to the proposals recommended in this paper;
63. agree to delegate authority to the Minister of Finance and Minister of Revenue to make decisions on the detailed design of the tax proposals recommended in this paper and to introduce a Bill containing these proposals as soon as practicable;

*Legislative amendments for initial recovery package*

64. agree that increases to main benefits be made through an Order in Council under section 452 of the Social Security Act 2018;
65. note that changes to the WEP period combined with changes to payment rates requires a change to the Social Security 2018 ahead of 1 May 2020;
66. agree to include a Income Support Package Legislation Bill in the 2020 Legislation Programme with a priority of Category 1;
67. authorise the Minister of Finance and Minister for Social Development to make technical, policy and administrative changes required to finalise draft legislation and regulations, in keeping with the policy aims, to implement this package;
68. invite the Minister of Finance and Minister for Social Development to issue drafting instructions to the Parliamentary Counsel Office to draft amendments to give effect to the policy decisions agreed above;

*Other legislative matters*

69. note that we may need to pass a further Imprest Supply Bill to cover any financial implications of the economic response package in the current financial year;
70. authorise that the Minister of Finance and the relevant portfolio Ministers may resolve any minor policy, fiscal or administrative issues consistent with the aims of the Package

Authorised for lodgement

Hon Grant Robertson

Minister of Finance