THE 1984 BUDGET

The 1984 Budget was presented to Parliament by the Minister of Finance, the Hon. R.O. Douglas, on 8 November 1984. The following article summarises the measures announced in the Budget, and outlines the expected movements in Government revenue and expenditure over the coming year. A more comprehensive analysis of the Government's fiscal measures will be addressed in a forthcoming article in the 1985 *Bulletin*.

In his address, the Minister noted that the economy had performed poorly in recent years. It had failed to respond sufficiently to changes in the international economic environment, and this had been reflected in relatively low economic growth, high inflation and unemployment, and large fiscal and balance of payments deficits. He stated that the economy could and needed to do better, and that the Government was pursuing a mutually supportive mix of policies which would enable this to occur. The measures contained in the Budget were part of this overall strategy. They built upon measures already in place: — beginning with the devaluation and the scheduled phasing out of export incentives; the subsequent moves towards deregulating the financial sector; the implementation of an active debt sales programme and a firm monetary policy stance; and the agreement on wage-fixing procedures when the wage/price freeze ended. The overall aim of the Budget was 'a more efficient economy as well as a more just society'.

The measures announced in the Budget therefore fell into three broad groups — resource allocation, social equity and taxation reform. The Minister stated that sustained growth in output and employment required that the country's resources be used in the most productive way possible, and that the structure of production should be responsive to changes such as a shift in international prices. To help ensure that key prices in the economy more accurately reflected the true costs and benefits of resource use, industry support measures were being further reduced, and Government charges were being rationalised. By reducing the reliance of some industries on artificial support mechanisms, the Government was encouraging all productive sectors to adjust to a changing world.

The Minister noted that greater efficiency would improve New Zealand's economic performance, but would not necessarily ensure that the benefits would be shared fairly. The Government undertook to carry out a longer-term review of social policies to protect vulnerable groups and guarantee adequate access to resources, but the relatively short time available for the preparation of the Budget precluded any major reforms of the personal income tax and benefit system. The immediate priority was to meet the urgent needs of some low income groups, and of low-income families in particular. The Budget therefore included a package which will provide substantial relief for low-income families with dependent children. It also increased the rates of income-tested social security benefits and war pensions, the net rates of National Superannuation, and raised the Principal Income Earner rebate for individuals and households without dependent children. Other social services measures included in the Budget provided for increased spending on housing, on primary health care facilities and on education.

The Government also believed that those in a relatively advantageous position should carry a greater share of the necessary restraint in expectations and claims, and therefore wished to direct social services resources away from those with adequate incomes to other groups with more pressing needs. As part of the move to re-target social expenditures, a surcharge on National Superannuitants' other incomes was introduced.

A high priority has been given to reform of the tax system. The Government recognised that the present system encourages the misallocation of resources and contains many anomalies. Too much weight is placed on the direct taxation of personal incomes and because the overall tax base is narrow, average and marginal income tax rates are high. Many forms of income and expenditure are currently untaxed, and the overall effect is to provide incentives to invest in unproductive areas of the economy and to encourage tax avoidance and tax evasion. In the light of this, the Government's long-term objectives are to introduce greater equity into the personal tax and benefit systems and minimise the distortionary impact on resource allocation by reducing anomalies and arbitrary concessions. Comprehensive reviews of the personal benefit and tax systems, and the business tax system would be undertaken in 1985, paving the way for a widening of the tax base. The limited time available precluded major reforms being set in place immediately. In the interim, the Government had introduced a range of measures which it believed were consistent with these longer-term objectives. They included the introduction of a tax on fringe benefits (for instance, employer-provided cars and low-interest loans), and the removal of personal tax exemptions for life insurance and non-subsidised superannuation contributions (for new contracts), rates and mortgage interest payments (though the latter deduction will continue for those already eligible).

The Minister stated that the Government believed that the personal tax scale would need to be flattened (high marginal tax rates reduced) and that further relief would need to be given to low income groups. These moves would follow from the comprehensive tax reform planned, in particular the moves towards indirect taxation. The main step in this regard will be the implementation of a goods and services tax (or a Value Added Tax) on 1 April 1986. It is the Government's intention that this tax (which may replace the present wholesale tax system) will be applied at a single (uniform) rate to the widest possible range of goods and services. It will be levied on all transactions in goods and services up to and including the retail level, although exports will be exempt. The extra revenue obtained is expected to assist in significantly reducing the fiscal deficit, and hence pressure on interest rates and inflation.

A SUMMARY OF THE MAIN MEASURES TAKEN IN THE BUDGET

1. RESOURCE ALLOCATION MEASURES

(a) Import Competing Industries

— Import licences are to be extended to a minimum 10 per cent of the domestic market in 1985 for goods not covered by industry development plans;

— tariff protection will eventually be lower and more uniform across import substituting industries.

(b) Farming

— Assistance via tax concessions will be reviewed in the context of the planned business tax review;

— the Productive Development Loan Scheme announced by the previous Government will not proceed;

— Government funded rural lending interest rates will progressively be brought into line with market rates;

— product inspection services are to be put on a partial cost recovery basis;

— all fertiliser transport subsidies have been removed and the fertiliser price subsidy is to terminate on 31 March 1986;

— the Farming and Agricultural Investment allowance terminates on 31 March 1985;

— the Rural Bank is required to raise all new loans on the market by 1986/87;

— the Farm Vendor Finance Scheme has been terminated;

(c) Forestry

— Forestry Encouragement Grants have been replaced by tax deductability measures similar to those for farm development;

— the price of State exotic woods is to be aligned to current market values within five years or set to cover replacement costs if appropriate market values cannot be established;

(d) Tourism and Export Market Development

— Assistance to export marketing and tourism promotion activities is to be examined in the business tax review in 1985. Meanwhile, the Export Market Development and Tourist Promotion Tax and Incentive is to be extended to 31 March 1986.

(e) Energy

— The Government will now receive its share of oil field developments directly rather than by dividends;

— the price of State-supplied electricity and coal is to be increased progressively to the full cost of supply. From 1 April 1985 the average bulk electricity tariff will increase by 25 per cent and the prices charged by State Coal Mines for non-export sales will increase by an average of 35 per cent;

— the South Island electricity concession to industrial users will be phased out with termination on 31 March 1987. The general differential in electricity prices between the North and South Islands will increase to 10 per cent from 1 April 1985 (reflecting the lower cost of supply in the South Island).

(f) Transport and Communications

— Road user charges are to increase by an average 46 per cent from 1 February 1985;

— duty on motor spirits and sales tax on CNG and LPG were raised by 2.5 cents/litre for petrol, 73 cents/gigajoule for CNG and 1.93 cents/litre for LPG;

— these moves will allow the Government subsidy to the National Roads Board to be eliminated in 1985/86;

— domestic airways dues are to increase by 75 per cent from 1 December 1984, helicopters will be charged half the full rate;

2. SOCIAL SERVICES PROGRAMMES

(a) Low Income Assistance and Related Tax Changes

— A Family Care programme comprising a non-taxable payment of $10 per week per child in addition to the Family Benefit, payable to the person receiving the Family Benefit is to be available in full to families with incomes up to $20,470 per annum (the limit increasing by $2,080 for each additional child) from 4 December 1984. The payment will abate by 25 cents per dollar of household income in excess of the applicable limit;

— the Principal Income Earner Rebate is to be increased from a maximum of $312 to $520 per annum;

— the rates of income-tested social security benefits, war pensions, and National Superannuation are to be increased by $6.00 per week for a married couple and $3.60 per week for a single person;

— the beneficiaries' child supplement will generally be increased by $2 per week per child, to $8 per week per child;

— from 1 April 1985 a special tax surcharge of 25 per cent is to be imposed on superannuitants' other taxable income over $5,200 per year. The maximum surcharge liability will be the net amount of National Superannuation received over each year.

— the standard rate of personal income tax has been raised from 31.5 per cent to 33 per cent, applying to a broader income bracket $6,000 to $25,000 rather than $6,000 to $24,000, the change to take effect from 1 December 1984. Housekeeper, dependent relative, charitable donations and other rebates have been adjusted slightly;

— the subsidy on fresh milk is to be removed in early 1985;

(b) Housing

— A review of all Government housing policies and of the role of the Housing Corporation is expected to be completed by March 1985, allowing a revised housing package to be introduced which will include provision for income-related mortgage repayments and rents;

— total spending on the acquisition of State rental units will be about $54 million during 1984/85, enabling the acquisition of 1,000 state rental units. (This compares with an average number of 500 units per year over the past three years);

— Housing Corporation lending to modest-income first home buyers will be increased by $48 million (or 27 per cent) over 1984/85. Maori Affairs Department lending will be increased correspondingly;

— the prime lending rate of the Corporation and of the Maori Affairs Department will be restored to 9 per cent, pending the introduction of income-related mortgage repayments.

(c) Health

— the General Medical Services benefit for children will be increased from $4.75 to $9.50 for a normal consultation, where the doctor agrees to limit the total fee;

— a $1 fee will be imposed on most prescriptions.

(d) Education

— 236 additional teachers will be appointed to replace the present ad hoc staffing of the Reading Recovery Programme and there will be small overall increases in kindergarten and State secondary school staffs;

— the tertiary assistance grants and the teachers' college students' supplement for 1985 will be increased;

3. OTHER TAX CHANGES

(a) Fringe Benefits and Income Tax Concessions

— A fringe benefits tax of 45 per cent is to be levied on employers according to the taxable value (the market value) of fringe benefits provided to employees. It is to apply from 1 April 1985 and will not be deductible for income tax purposes;

— personal tax exemptions have been abolished for new contracts in respect of life insurance, personal lump-sum superannuation and non-subsidised employee lump-sum superannuation. The concessions for existing contracts are to be reviewed;

— the first home mortgage interest rebate has been discontinued for homes purchased after 8 November 1984;

— the income tax rebate for rates and Chatham Island dues will end from 1 April 1985.

(b) Other Taxation Measures

— The taxes on most alcoholic beverages were increased. The largest increases are in the tax on table wines, up about 45 cents per bottle and on fortified wines, up about 57 cents per bottle.

— the excise duty on tobacco products has been raised by 26 per cent (implying approximately 16 cents extra tax on a packet of 20 cigarettes);

— the tax on all computer equipment has been reduced to 10 per cent removing the existing dual tax rate based on the status of the purchaser;

— the tax on records, recorded tapes, blank magnetic tapes and cosmetics has been reduced from 40 per cent to 20 per cent and the tax on caravans and boats from 20 per cent to 10 per cent;

— motor vehicle registration and related fees will be increased by 20 per cent from 1 July 1985.

(c) Planned Changes

— Reviews of personal and business taxation are planned for 1985;

— legislation is to be introduced in 1985 to implement a goods and services tax from 1 April 1986, to be applied at a single rate to the widest possible range of goods and services.

ESTIMATED REVENUE AND EXPENDITURE

The estimated impact of the measures outlined above on the fiscal deficit are summarised in table 1. Government (net) expenditure in 1984/85 is forecast to be $15,566 million, an increase of 9.2 per cent over 1983/84 and total receipts are forecast to be $12,795 million, an increase of 14.8 per cent over 1983/84. The deficit before borrowing for 1984/85 is forecast at $2,761 million, 10.9 per cent below the 1983/84 deficit and representing an estimated 7.2 per cent of GDP, down from 9 per cent in 1983/84. Details of Receipts and Expenditure are given in table 2.

TABLE 1
THE IMPACT ON THE FISCAL DEFICIT OF PRE-BUDGET AND BUDGET MEASURES

	Estimated 1984/85 ($m)	Forecast 1985/86 ($m)	Forecast 1986/87 ($m)
A. **Measures Announced Prior to Budget**			
— Industry Assistance	− 50	− 150	− 360
— Transport and Communications	− 161	− 160	− 170
B. **Budget Measures**			
— Industry Assistance and Land Use	+ 18	− 290	− 498
— Energy	− 70	− 259	− 336
— Transport and Communications	− 35	− 129	− 129
— Social Services	+ 156	+ 259	+ 229
— Other Tax Changes	− 30	− 346	− 497
C. **Total Impact on Fiscal Deficit**			
— Pre-Budget Measures	− 211	− 310	− 530
— Budget Measures	+ 39	− 765	− 1,231
	− 172	− 1,075	− 1,761

TABLE 2
GOVERNMENT EXPENDITURE AND REVENUE

	1983[1] $m	1983[1] % Change	1984[1] $m	1984[1] % Change	1985[1] (budgeted) $m	1985[1] (budgeted) % Change
EXPENDITURE						
Administration	832.5	− 8.9	841.3	1.1	919.0	9.2
Foreign Relations	808.2	12.3	829.4	2.6	956.1	15.3
Development of Industry	1,429.8	20.8	1,882.4	31.7	1,859.1	− 1.2
Education	1,638.8	9.8	1,674.3	2.2	1,710.9	2.2
Social Services	3,744.2	23.1	4,049.4	8.2	4,501.4	11.2
Health	1,766.1	10.3	1,804.9	2.2	1,939.5	7.5
Transport and Communications	495.6	7.6	537.1	8.4	552.0	2.8
Debt Services and Miscellaneous Investment Transactions	1,549.4	12.7	2,240.4	44.6	2,744.2	22.5
Subtotal	12,264.6	13.7	13,859.3	13.0	15,182.2	9.5
Miscellaneous Financing Transactions	407.9	0.3	390.7	− 4.2	374.1	− 4.2
TOTAL NET EXPENDITURE	12,672.5	13.2	14,250.0	12.4	15,556.3	9.2
RECEIPTS						
Income Tax	7,455.5	14.4	7,453.3	0.0	8,375.0	12.4
Customs, Sales Tax and Beer Duty	1,872.7	14.6	2,117.8	13.1	2,490.0	17.6
Highways Tax	233.0	10.1	242.3	4.0	300.0	23.8
Motor Spirits Tax	184.4	25.3	224.1	21.5	225.0	0.4
Other Taxation	351.9	20.9	393.7	11.9	430.0	9.2
Total Taxation	10,097.5	14.8	10,431.2	3.3	11,820.0	13.3
Interest, Profits and Miscellaneous Receipts	417.0	12.0	718.1	72.2	975.0	35.8
TOTAL RECEIPTS	10,514.5	10.7	11,149.3	6.0	12,795.0	14.8
DEFICIT BEFORE BORROWING	2,158.0	6.5	3,100.7	43.7	2,761.3	− 10.9
MEMORANDUM ITEMS	%		%		%(f)	
Expenditure/GDP	39.3		41.4		40.6	
Deficit/GDP	6.7		9.0		7.2	

[1] March years
f forecast