NEWS

APRIL 2022

SNIPPETS

MINIMUM WAGE INCREASE

The minimum hourly rate increased on 1 April by $1.20 per hour to $21.20 plus holiday pay of 8% per hour (total hourly rate $22.90 per hour with holiday pay) – an increase of 6%.

The training wage also rose from $16.00 to $16.96 per hour plus holiday pay.

This increase would see an adult employee on the minimum wage and working 40 hours with $48 more a week in their gross income – almost $2,500 per annum.

Richard Wagstaff from the Council of Trade Unions states the unions were looking for more. It was their hope that the Government would act on a petition delivered which called for the minimum wage to be at the level of the living wage which is due to rise to $23.65 per hour in September this year. The unions are also looking to the Government to make moves to introduce fair pay agreements such as those in place in Australia.

This minimum wage increase comes at a time when a large number of businesses, particularly in tourism and hospitality, are suffering a significant decline in revenue and in the next weeks will struggle to find an additional 6% in revenue to implement this increase. Business NZ chief executive Kirk Hope also commented that due to low unemployment some sectors are already paying significantly higher labour costs coupled with higher capital costs and increased costs due to global supply chain disruptions.

MARSDEN POINT OIL REFINERY CLOSURE IMMINENT

With fuel prices at the highest level for some years due to global uncertainty and the war in Europe, the closure of Marsden Point Oil Refinery brings to the fore concerns regarding New Zealand's fuel security.

While the closure of the 60 year old refinery is now inevitable, the fears of fuel security are based on the premise that significantly less fuel will be held in the country and there will be no crude waiting to be processed. The global shipping disruptions that have occurred over the past year or so have created this nervousness.

This is despite assurances made that the reserve fuel stock held as part of the compliance with the 90 day stockholding obligations under the International Energy Agreement once the refining of crude ceases will be actioned.

Some of the reasons presented for the closure were that the bigger refineries in Asia presented strong competition and so this along with the declining revenues drove the change. Refining New Zealand will become an import only fuel terminal, changing its name to Channel Infrastructure. Fuel imported to Marsden Point see their main markets as those in Auckland and Northland. Fuel for the rest of New Zealand will be imported directly from overseas refineries into other ports around the country.

Naturally the decommissioning of Marsden Point also gives rise to questions of how contaminated the land is and how it will be dealt with. Environmental assessments to date state that the aquifer beneath the refinery is contaminated because of the presence of hydrocarbons in the groundwater which means it will need to be dealt with prior to any future use. No change is ever straightforward and the move to close Marsden Point is a complicated one.

With the cost of a barrel of oil being at a seven year high, fuel price pressure is mounting – it is unlikely oil producers will increase production any time soon; in fact investment in exploration has decreased markedly and 2021 saw the least amount of oil discovered in 75 years.

New Zealand's primary industries rely heavily on diesel to keep large machinery used in sectors such as agriculture and forestry running. Of course the cost of fuel has a flow on effect when the transport sector is included because it provides much needed delivery of produce and products.

The challenge for all will be determined by the current geopolitical situation and the likely long term effects of the war between Ukraine and Russia.

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CHANGES TO INTEREST DEDUCTIBILITY ON RENTAL PROPERTIES

The Government has introduced new interest limitation rules. These will reduce the ability of residential investment property owners to claim interest as a deductible expense. The new interest limitation rules passed into law in March 2022 and will apply from 1 October 2021. Certain entities and property types will be exempt from the interest limitation rules; for example exemptions will apply for the main home (when it is used to earn income), developments (activities resulting in new dwellings), new builds (self-contained dwellings added to land), student and employee accommodation.

For properties purchased before 27 March 2021, interest deductions will be phased out over four years. From 1 April 2025 the property investor will not be able to claim any interest expenses.

If you own a rental property purchased on or after 27 March 2021 you will not be able to claim interest as a deductible expense from 1 October 2021. If you no longer own a residential rental property, the changes will only apply if you purchase a new property.

It is proposed that if a residential property is taxable under the bright-line property rule when sold, then the previously denied interest deductions under the interest limitation rules may be available but limited to the gain on sale.

UPCOMING CHANGES TO THE HEALTHY HOMES STANDARD

The Government announced in late 2021 that changes to the healthy homes standards came into effect in April 2022. Changes have been made to the heating, ventilation and moisture ingress and drainage standards. A grace period for affected properties will also be introduced.

Changes include:

- Updating the heating standard to better reflect heat retention in certain properties, including apartments, newly built homes and properties renovated throughout to the 2008 building code requirements for insulation and glazing.

Updating the heating and ventilation standards to give all properties additional flexibility with the introduction of:

- a new alternative pathway to compliance
- a new 'top-up' heating allowance
- a new tolerance for existing insufficient heating capacity
- geothermal heating will also now be compliant
- the ventilation standard will now allow continuous mechanical systems that continuously extract from kitchens and bathrooms – for homes that received building consents on or after 1 November 2019, and
- the moisture ingress and drainage standard will be clarified so that landlords are not required to install alternative moisture barriers where it is not reasonably practicable to install a polythene barrier.

NEW KIWI CITIZENS

About 5,000 people have become residents under a fast-tracked Government scheme launched late 2021, with migrants from India, South Africa, the Philippines, Britain

and Sri Lanka topping the approvals. Almost 30,000 people have so far applied for the one-off residence visa and it is calculated up to 165,000 may be eligible by the end of this year. Migrants are eligible if they are settled (three years plus living in New Zealand), a skilled worker (based on an hourly wage scale) or provide skills in employment categories which are in short supply.

PROPOSED INCOME INSURANCE SCHEME

The proposal was announced by the Government in February of this year to put in place a New Zealand Income Insurance Scheme that would enable workers who are made redundant or laid off, or have to stop working because of health and disability, to receive 80% of their usual salary for up to seven months. Indications are that the Scheme could take effect from 2023, an ambitious timetable considering the fundamental changes to employment relations that are proposed.

This type of scheme is not unusual in developed countries, although the stated benefit of such a scheme in New Zealand was to 'reduce the current inequities between those who have income-related cover for accident and those who suffer illness or disability not covered by ACC'. Thus the original redundancy proposal has morphed into also covering sickness and disability.

The Government is calling for public submissions on proposals, and the Ministry of Business, Innovation and Employment's website provides all the documents essential to making a submission: a discussion document, a summary booklet and a submission template.

Submissions closed on 26 April 2022.

At its simplest, the proposal is for employees and employers to both contribute 1.39% (or 2.78% in total, noting there is some rounding) of all earnings from employment to the Scheme. The levy will have a maximum earnings cap, initially set at $130,911. This means employees and employers will both potentially be contributing up to $1819 annually to the Scheme. At this level contributions could quickly add up to a large amount during an employee's working life. For employers, having up to 1.39% added to the existing wage bill is not immaterial.

To put this in perspective, the MBIE discussion document notes:

"New Zealand has around 135,000 businesses with 1 to 19 employees (these are classed as small businesses). The median annual earnings for each worker in businesses of this size are $51,561. Assuming the business has 19 workers each earning $51,561, the levy cost to that business would be $13,617 per year. The cost of a four-week bridging payment for a business making a medium income earner redundant would be around $3,400."

One of the key features of the proposed scheme is the broad coverage for different working arrangements with coverage for "displacement" caused by job losses. This "displacement" term as used in the website consultation document refers to the loss of work due to the disestablishment of a position. The scheme would cover full job loss only with full time and part time permanent workers covered. Employees must have used all available sick leave before claiming under the Scheme.

Casual and fixed term employees whose pattern of work resembles permanent employment and who would have an expectation of future income would be treated as permanent in this context. Seasonal employees would also be included if displacement prevents the completion of work covered by their employment agreement.

The scheme would also cover those self-employed people who "most resemble" employees but as these are obviously not eligible for the displacement insurance they will only expect to pay a levy of 1.36% for the health condition or disability insurance.

It is intended that contributions are made by as many types of workers as possible including working holidaymakers, international students and other temporary work visa holders, to ensure there are no incentives to convert workforces to non-residents to avoid the levy!

Payments would be calculated on an individual basis (with no asset testing or partner income assessment). It would abate dollar for dollar once the combination of personal "exertion" income (at this stage any investment income is to be ignored) and the insurance reached 100% of pre-loss income. Generally, the insurance payments would be treated as income for welfare and tax purposes.

Income insurance for displacements for health conditions and disability would provide the same entitlements as those available for loss of job displacement. However, it would cover all forms of working arrangements, with all working arrangements deemed to be self-employed fully covered.

The scheme would cover any health condition or disability that resulted in a reduction in the capacity to work of at least 50% and that is expected to last for no less than four working weeks.

Employers would be required to take reasonable steps to support an employee to continue working before the employee ceases work and then to take 'reasonable' steps to protect the job where there is an acceptable prognosis of a return to work within six months. If dismissal because of health or disability is decided upon by the employer, the same notice and bridging payment provisions would apply as for displacement.

Claimants, who must be New Zealand citizens or residents, would be expected to be based in New Zealand and to show effort to search for suitable employment or be prepared via training to be re-employed. They would not be required to accept new employment that did not offer pre-displacement wages and conditions but would be expected to accept suitable offers.

Claimants for health-related income insurance would be obliged to participate in work capacity appraisals as well as where appropriate return-to-work assessments such as rehabilitation, training and job search.

The Scheme will be administered by the Accident Compensation Corporation and employee levies are expected to be collected by the Inland Revenue as an additional deduction in PAYE returns. An independent dispute resolution service would operate.

Questions not asked in the discussion document include:

- Should the insurance be compulsory for those employees and employers who have already opted to have private insurance cover?
- How will different types of insurance cover interact with one another (eg will private income protection insurance preclude some from claiming under this scheme or vice versa)?
- How are the levies and claims calculated? – should this include all forms of employment income such as bonuses, share scheme and other fringe benefits?
- What impacts could the scheme have on employment contracts going forward, particularly for employers currently offering redundancy packages and sick leave above the statutory minimum level?

NZ'S GOING BIG ON BIOENERGY

With the opening of a new plant in October this year, New Zealand's first ever large scale food-to-waste energy converter will take what was once destined for landfill and transform it into something useful. The anaerobic digestion facility at Reporoa, east of Rotorua, will process up to 100,000 tonnes of waste per year, converting this into methane for the national electricity grid, carbon dioxide for the food industry and liquid fertiliser for primary production.

The facility will service customers spread from Wellington, the Bay of Plenty, Hawkes Bay, Gisborne and Auckland. These customers include 140 food manufacturers ranging from restaurant and food production industries. The plant will take food waste from curb-side collections, waste processes from meat, dairy and horticulture industries, including coolstore rejects. The plants could also dispose of dairy farm effluent if sudden adverse weather events threatened to overflow ponds and this would prevent discharge into waterways.

The gas generated from processing is 60% methane and 39% CO_2. It is separated, cleaned with the CO_2 bottled. The methane is to be transferred to a generator to run the joint venture factory while excess gas goes to the nearby gas line to be part of the national grid.

This is about extracting the last bits of value out of the food chain, allows for a number of incumbent primary producers to expand their operations, gives brand surety and security to food exporters and gives credibility to the country's "clean green" social licence.

CAUGHT!

This bloke is about to go to bed with his wife Joanna's best friend, Gloria.
"Hang on," he says to Gloria "I'd better find out where Joanna is
so that we can be sure she won't turn up here and discover us."
"Good idea," says Gloria.

So the bloke rings his wife, Joanna.
There is a brief conversation and he then turns to Gloria.

"She says…………………….she's with you!"