

# The Treasury

## Budget 2023 Tax Initiatives Information Release

July 2023

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Date: 2 September 2022

To: Minister of Finance  
(Hon Grant Robertson)

Deadline: None  
(if any)

## **Aide Memoire: Additional information on firm financial performance**

### **Purpose**

1. Officials recently provided a slide pack containing a short overview and initial high-level insights on windfall taxes (T2022/1834 refers). This Aide Memoire responds to your request for further information on the financial performance of individual large New Zealand businesses and the industries they operate in.

### **We have previously advised you about whether there was a strong case that any particular sectors of the economy are making windfall profits**

2. Our previous report noted that corporate tax revenues appear to have been increasing faster than GDP in the past year, but that this does not appear to be due to 'windfall gains'. The report also noted that some industries have had particularly large profit growth, but that it isn't clear whether this is standard volatility for some industries. The same caveat applies to the information below.

### **You have asked for more information on the profitability of firms in 2022**

3. Aggregate data on profits is not yet available for 2022. In lieu of that aggregate data, we have analysed the financial performance of a selection of large New Zealand businesses, some of which were also recipients of significant government support during the pandemic.
4. We have used 2019 as the benchmark for comparing profits in the last year. This has allowed us to compare recent profits to pre-COVID levels.
5. This analysis is based on the information contained in publicly available financial statements. This is a manual process and, given time constraints, the collection of this data has not been through a thorough quality assurance process and should therefore be taken as indicative only.
6. Care should be taken when drawing conclusions about profitability based on company financial data. These data are often influenced by one-off, firm-specific events and will fluctuate from year to year, meaning comparisons to a "baseline" year such as 2019 could be misleading.
7. We focused our analysis on industries that were some of the largest recipients of government support, particularly the wage subsidy, as well as those who may

have benefited from economic dynamics associated with the pandemic or longer-term dynamics related to market structure. Those industries are banking, energy, retail, construction, and aged care.

8. We have not included businesses that have made losses during the last year. Given that our analysis is only based on publicly available information, we have excluded businesses who do not publish their financial statements.
9. The specific firms chosen are some of the largest firms operating in their respective industries. Their financial performance should not be considered representative of the performance of all firms in their respective industries.

**We have focused our analysis on industries that received significant government support during COVID-19, or facing other extraordinary trends**

10. The COVID-19 Wage Subsidies were the most significant form of support provided by the Government. The total amount of Wage Subsidies claimed by the top 50 claimants (net of any repayments) was approximately \$1bn as at August 2022. The total amount of Wage Subsidies provided to all businesses was \$18.2bn by the end of June 2022.
11. In addition, the Government provided support via the Business Finance Guarantee Scheme (BFGS), which supported the provision of scheme loans to viable businesses. This involved the Government taking up to 80% of the loss should the borrower default. At the end of the availability period on 30 June 2021, a total of \$2.86bn in supported lending had been provided to 4,035 businesses.
12. You also provided financial support targeted at smaller businesses. For example, the Small Business Cashflow Scheme provided cashflow assistance to small businesses that experienced at least a 30% decline in revenue over a month compared to the previous year. In addition, the Resurgence Support Payments and Covid Support Payments provided a capped level of support to businesses.
13. It is possible some of the firms that received support are now experiencing high profits. However, the data does not suggest a causal link between the two, with some of the largest recipients of Government support seeing little change in profitability or in some cases ongoing losses.

**There is evidence of increased profits across these selected industry groups compared to 2019, although the size of this increase varies widely**

*Profits by industry*

14. There are a limited number of firms that have published financial statements in 2022. Therefore, we have not drawn industry-wide conclusions for 2022 on the basis of this analysis where there are insufficient datapoints.
15. The selected industry groups show broadly similar patterns across the reference period, with a drop in profits in 2020 followed by a recovery in 2021 (Figure 1).
16. Profits in most of the industry groups for 2021 rose above 2019 levels, which is expected given the strong rebound in New Zealand's overall economic activity. Considering the fall in profits in 2020, the pandemic does not necessarily appear to have been associated with a significant increase in company profits, as profits tend to fall more – and subsequently rebound further – with the economic cycle.

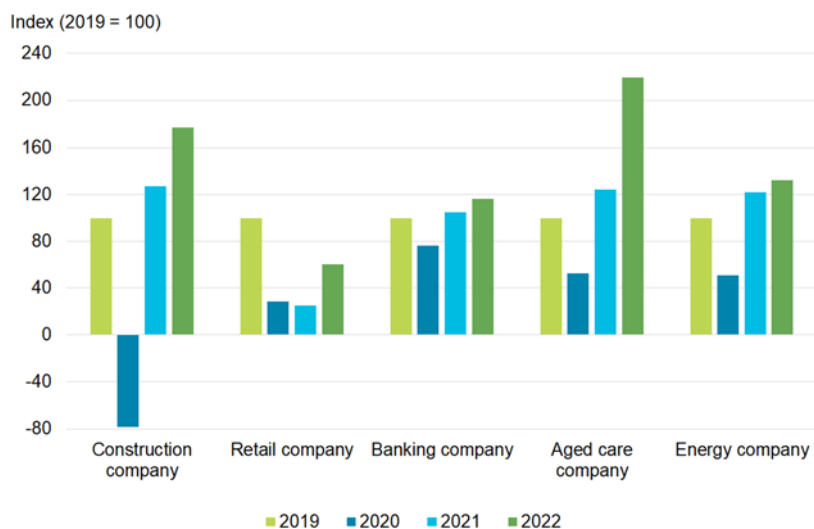
**Figure 1: Before-tax profits by industry group**



*Profits of indicative companies in each sector in 2022*

17. Data for 2022 were not available for most companies due to different reporting dates. This section draws more limited conclusions on the basis of available data.
18. For the selected companies that have reported financial data for 2022, aggregate profit before tax was up 43% compared to 2021 and 38% compared to 2019. The average gross profit margin fell from 29% in 2019 to 28% in 2022. From 2019 to 2022, nominal GDP rose 16%.
19. Given this data limitation, Figure 2 recreates Figure 1 using a single indicative company (one that has reported 2022 data) for each industry group, to give an indication of any trends we can currently observe. **These companies should not be considered as representative of the overall industry or economy**, but do suggest that companies that have reported results so far in these industries have reported higher profits in 2022 than prior years.

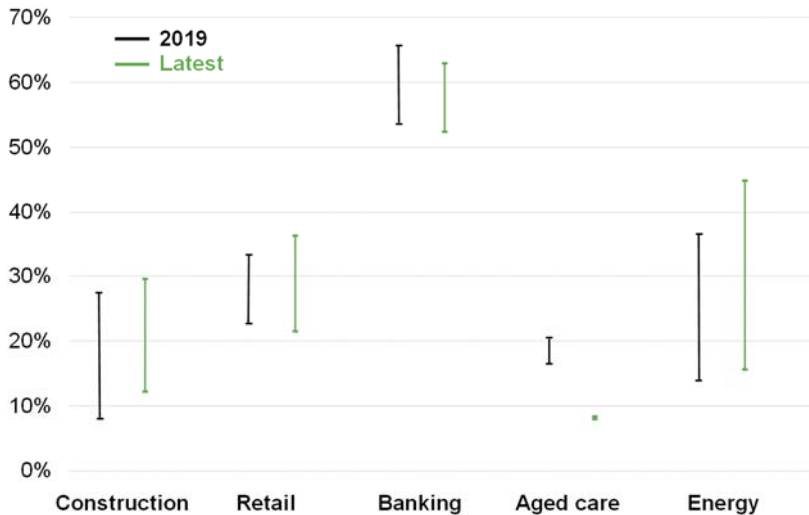
**Figure 2: Before-tax profits for an indicative company within each industry group**



## At the company level, changes in profitability have been highly variable

20. Comparing gross profit margins (operating profit as a proportion of operating revenue) in the latest financial results for individual companies against 2019, there is a high degree of variability. Figure 3 shows the range of gross profit margins in 2019 compared to the latest available data for all companies we examined (both 2021 and 2022 data). Figure 3 suggests limited clear evidence of a trend of increasing profit margins across all the industry groups and companies within them.

**Figure 3: Range of company gross profit margins by industry group, latest vs. 2019**



## Next steps

21. This further analysis, and the conclusions that can be drawn from it, is unavoidably limited by the fact that most companies have not yet reported their earnings for 2022. That data limitation will diminish over time, but it will be early 2023 until a clearer picture emerges from public data as some companies align their financial year with the calendar year.
22. On request, we can provide:
- Further information on a wider set of firms' recent financial performance as additional data becomes available in early 2023;
  - Further advice on the considerations and design of windfall profits levies.

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