

# COVID-19 Novel Coronavirus

## Business Continuity Package Advisory

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## Disclaimer

This update is general in nature and not intended to be relied upon. Individual circumstances may differ and may affect the advice given. We have obtained our information from a range of New Zealand government agencies, departments, and have cited where possible. Any concerns or questions should be directed to [us](#)

## Introduction

The New Zealand Government on Tuesday 17<sup>th</sup> March announced a Business Continuity Package to assist businesses who are impacted by the COVID-19 outbreak.

The package has the following key aspects:

- Wage Subsidies
- Self-Isolation & Leave Support
- Income Support
- Redeployment
- Taxation Relief
- Aviation Support

The total package as it stands is around \$12.1 Billion and we anticipate further announcements as advised by relevant Government agencies. The COVID-19 situation is moving extremely quickly and we will endeavour to keep you updated as the situation changes.

The Minister of Finance's statement to Parliament can be found [here](#) (NZ Treasury) as well as the [media release here](#) (Hon Grant Robertson).

## Wage Subsidy<sup>1</sup>

The Wage Subsidy has been made available for employers throughout New Zealand if your business is impacted by the COVID-19 virus. The purpose of the subsidy is to support your business to minimise laying off staff or reducing hours because of the COVID-19 virus.

The subsidy is for wages only and is paid as a lump sum. The current term of the subsidy is 12 weeks per employee and will allow you as a business owner to consider further changes that may be required to ensure further viability of your business.

The economic effects and further information can be found [here](#) (NZ Treasury)

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<sup>1</sup> Further Wage Subsidy can be found on the Ministry of Social Developments website, see [here](#)

## Qualification Criteria<sup>2</sup>

If you're an employer, contractor, sole trader or self-employed, you may qualify to get the COVID-19 wage subsidy:

### To qualify:

- your business must be registered and operating in New Zealand
- your employees must be legally working in New Zealand
- the business must have experienced a minimum 30% decline in actual or predicted revenue over the period of a month when compared with the same month last year, and that decline is related to COVID-19
- your business must have taken active steps to mitigate the impact of COVID-19
- you must make best efforts to retain employees and pay them a minimum of 80% of their normal income for the subsidised period.

## Operating a Registered Business in New Zealand

### Limited Liability Companies

If you are a director of a limited liability company, you will already be registered with the New Zealand Companies Office. Your company must be physically located in New Zealand and your employees must be legally able to work in New Zealand.

### Sole Traders, Partnerships, Limited Partnerships, Trusts

Sole Traders & Partnerships are not required to be registered with the New Zealand Companies Office but must have an IRD number either:

- your personal IRD number if you are a sole trader; or
- your Partnership, Limited Partnership, Trust IRD number for Income Tax & GST (if GST registered)

You should also be qualified and registered for your trade or profession and have relevant government licenses or permits for your business needs. Having a thirteen (13) digit NZBN number is advisable<sup>3</sup> if you are a sole trader, partnership, or trust but is not a mandatory requirement.

## Legally working in New Zealand

Legally working in New Zealand means a person working in New Zealand and be legally entitled to work in New Zealand.

The criteria to be legally able to work in New Zealand is<sup>4</sup>:

- a current New Zealand or Australian citizen and includes a person born in the Cook Islands, Niue, or Tokelau; or
- a current holder of a New Zealand residence class visa; or
- a current holder of a New Zealand work visa or a condition in their New Zealand temporary visa that allows them to work in New Zealand

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<sup>2</sup> As advised by Ministry of Social Development – this information can be accessed using the above link

<sup>3</sup> NZBN was an initiative that was launched in 2016 to create a publicly accessible base to search other registered businesses that are not incorporated on the companies office or incorporated societies register. It is not mandatory but it is slowly becoming a contractual condition if your business engages with the public sector. More information regarding NZBN can be found <https://www.nzbn.govt.nz/get-an-nzbn/> here

<sup>4</sup> As advised by Ministry of Social Development

## 30% Decline in Revenue Test

A business is within the definition of “30% decline in revenue” when that revenue is experienced on actual revenue or predicted revenue. Predicted revenue must meet a reasonable standard that revenue projected was expected.

### For example:

- reduction in bookings for accommodation providers
- cancellation of bookings for tourist providers
- postponed or cancelled events due to government directives such as 500+ mass gatherings
- projected construction work being postponed or cancelled

The Ministry of Social Development have not yet, set a narrow scope of what constitutes predicted revenue which may be intended in order to not unfairly prejudice businesses from financial relief. We would expect that any predicted revenue cases would be potentially subject to audit and would need to be backed up by quantitative and qualitative evidence<sup>5</sup>.

We would expect the government to update these requirements as required, as the spirit of this aspect is to minimise loss of confidence within the share markets and economy.

### Revenue

- The definition of Revenue is the total amount of money a business has received from its normal business activities, before expenses are deducted (often referred to as Turnover or Gross Revenue).
- Revenue must be 30% less than it was in the month it was compared against.

### Timing

- The decline is ring fenced to being the months of January 2020 and 9 June 2020;
- Must be compared against the same month of the previous year i.e. February 2020 compared to February 2019.
- The exemption is when a business is operating for less than a year, where a comparison in revenue must be against the previous month that gives the best estimation of the revenue declined related to COVID-19.

### Active Steps

A business must take active steps to mitigate the financial impact of COVID-19 on their business. Similar to the wide scope currently regarding predicted revenue, the Ministry of Social Development have advised seeking advice regarding business continuity and support from the following agencies:

- Your bank
- The Chamber of Commerce
- A relevant industry association such as Hospitality Association New Zealand, Tourism Industry Aotearoa, Hospitality New Zealand, NZ Tech
- The Regional Business Partner programme

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<sup>5</sup> At the time of producing this advisory, we are still awaiting guidance from Ministry of Social Development to assist interpretation and using professional judgement.

We would further advise these sources as well:

- An accountant
- A registered Financial Advisor
- A relevant business expert who may be academically or professionally recognised

Some examples of active steps to take are:

- Updating or reemphasising hand washing and general hygiene policies or procedures.
- Having a COVID-19 policy.
- Having a plan of action if a shutdown of operations is initiated by the government, can employees work from home?
- Discussing any concerns, you may have with your supply chain and discussing possible issues with customers without delay.
- Being a fair and reasonable employer - loyalty and resilience to your employees and providing a calming approach to those employees who are anxious.

## Retaining Affected Staff

Employers are required to agree that, for the duration of the subsidy, they will make their best efforts to:

- Retain the employees the subsidy was paid for; and
- Pay those employees a minimum of 80% of their normal wage or salary

The subsidy is not intended to be a substitute for an employee's normal pay.

## Employer Obligations

The subsidy is being administered by the Ministry of Social Development under a high trust model. A high trust model is where the Ministry of Social Development will accept applications in good faith and not necessarily ask for verification before the subsidy is approved. This is due to the essence of time being crucial in order to minimise disruption to all parties.

However, the Ministry will have the ability to verify applications and supporting information later.

Where false or misleading information has been provided, employers will likely be subject to a fraud investigation. Being convicted of Fraud can lead to imprisonment of three years<sup>6</sup> and possible damages including costs of recovery.

The Ministry will require a statutory declaration to be signed.

A full list of employer obligations can be found [here](#)

## Sick Leave and Self Isolation Support

The COVID-19 Leave & Self Isolation Support payments will be available for 8 weeks commencing 17 March 2020.

Employers can apply to have this for more than once and will be paid to employers who have eligible employees. The payment must be passed on to their employees in full.

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<sup>6</sup> s240(1), s240(1A), s(240(2) Crimes Act 1961

## Qualification Criteria

You must meet all of the following to qualify:

- √ You must be an employer, contractor, sole trader, or self-employed
- √ Are legally working in New Zealand
- √ Are required to self-isolate within the Ministry of Health Guidelines<sup>7</sup>
- √ Have registered with Healthline as needing to self-isolate<sup>8</sup>
- √ Are not able to work from home
- √ Self-Isolation is not a result of travelling overseas after 16 March 2020<sup>9</sup>

OR you have been diagnosed with COVID-19 or you are caring for dependants who are diagnosed with COVID-19

## Payment Entitlement

- \$585.80 per week working 20 or more hours per week
- \$350.00 per week working less than 20 hours per week

Employers receiving the payment for employees who are required to self-isolate can receive it for 14 days. As people may be required to self-isolate more than once, employers will be able to apply on an “as needed basis”.

The payment is not time limited (can be paid for an entire period an employee is sick with COVID-19), but the employer must apply/ reapply every 14 days.

## Leave Entitlements

- The Employer and Employee can mutually agree to use any form of paid leave to cover their period of self-isolation.
- The employee is not required to have used any or all of their paid leave entitlements before they can receive this payment.

## Eligibility

The Employer must consider whether the employee was legally working for the employer at the time they decided to self-isolate; and they were expected to work for the period of self-isolation.

## Self-Employed People

Self-employed people, legally working in New Zealand may be eligible for payment, provided they:

- √ Are usually earning the minimum wage when they decided to self-isolate; and
- √ Were expecting to work for the period of self-isolation; and
- √ Cannot draw an income for the period of self-isolation

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<sup>7</sup> Ministry of Health guidelines regarding self-isolation can be found [here](#)

<sup>8</sup> Healthline can be contacted free on: 0800 611 116

<sup>9</sup> Travel Restrictions were imposed by the Government requiring those who entered the country after 1 am on Monday 16 March 2020 to self-isolate. For more information see [here](#)

## Exemptions

People not legally working in New Zealand or self-employed people not earning the minimum wage are not eligible for payment.

State sector employers cannot receive the payment as it is expected they will pay employees their normal wages through periods of self-isolation. State sector employers include: Government agencies, crown entities e.g. Kainga Ora, ACC.

The following employers can access the COVID-19 Leave Payment:

- √ Councils
- √ Kindergartens
- √ Early Childcare Centres
- √ Non-Government organisations
- √ Schools
- √ Tertiary Education Institutions such as Universities, Polytechnics, Wananga, Institutes of Technology

This subsidy is for wages only. It is to help you keep your staff employed while you consider changes that may be needed while the disruption continues, and to ensure the future viability of your business.

The maximum subsidy that can be paid to a business is \$150,000. Businesses can only get this subsidy once.

A fact sheet and further information can be found [here](#) relating to COVID-19 support (NZ Treasury) and [here regarding general income support for beneficiaries and superannuants](#)

## Proposals related to tax<sup>10</sup>

These are general advisories only and specific tax advice should be sought from your client manager.

### Changes with Future Effect – 2021 Financial Year 1 April 2019 – 31 March 2020

1. Increasing the small asset write off and capitalisation threshold from \$500 to \$5,000

#### Impact –

- Decrease assessable tax income for the year end 31 March 2020, potentially overpaid provisional tax being refunded;
  - The decreased tax bill for March 2020 will reduce provisional tax instalments for March 2021 with the first instalment in August 2020;
  - Assist cash flow with reduced payments for tax starting April 2020.
2. Giving Inland Revenue the discretion to remit use-of-money interest (UOMI) for customers significantly adversely affected by COVID-19. Currently, legislation<sup>11</sup> is before parliament and is required to be passed before Inland Revenue can exercise its discretion powers.

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<sup>10</sup> Inland Revenue's update can be found [here](#)

<sup>11</sup> Convention of the New Zealand Constitution requires Taxation legislative changes to be passed as law, rather than as amendment. Under current New Zealand tax law, the Commissioner of Inland Revenue is required in statute to exercise powers to obtaining highest tax revenue within the law.

Once legislation has been passed, we will as your tax agent, be advised of guidance on eligibility and qualifying criteria from Inland Revenue. Inland Revenue expect that the “30% deficit revenue criteria” will be part of this eligibility test.

**Likely Impact –**

- If businesses fail to meet tax payments due to cash flow problems between August 2020 – May 2021 and interest is charged, IRD are giving more understanding to potential write offs<sup>12</sup>;
- This change will only provide assistance where provisional payments cannot be met in the repayments due in August 2020, January 2021 and May 2021.

3. Increasing the provisional tax threshold from \$2,500 to \$5,000 from 2020/2021

**Impact –**

- This will increase cash flow for taxpayers who normally have a tax bill between \$2,500 and \$5,000 as they will no longer be required to prepay the income tax for the year end 31 March 2022;
- Rather than prepaying the following years income tax in August, January and May you will only be required to pay the full payment in the following April;
- The impact will only benefit cash flow throughout the year for those that have a normal tax bill between \$2,500 and \$5,000.

4. Decreasing the small asset write off and capitalisation threshold from \$5,000 to \$1,000 for the 2020/2021 tax year

**Impact –**

- Taxpayers will need to be careful here as they could get a large reduction in their tax liability in the year end 31 March 2020 as a result of the similar asset write off change effective for the 2020 tax year<sup>13</sup>;
- This will give them a reduced provisional tax assessment for March 2021, however they will not benefit from the same tax deduction in 2021;
- If the result of the asset write off change in March 2020 results in a significantly reduced tax liability, then careful planning will need to be done for provisional tax calculations.

5. Allowing depreciation on commercial and industrial buildings from 2020/2021.

**Impact –**

- This will increase the depreciation expenses and reduce income tax;
- Depreciation on buildings was changed as a result of Budget 2010, historical information can be found [here](#).
- This change however comes with its dangers. Building values are going to increase rather than depreciate, so this deduction will be simply recovered at the point this property is sold;
- All this change is doing is giving you a tax saving now but repaying this saving at a later date.

6. Removing the hours test from the In-Work Tax Credit (IWTC) for the working for families calculation from 1 July 2020.

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<sup>12</sup> The Commissioner of Inland Revenue has powers to use their discretion to write off tax within the scope of s177C of the Tax Administration Act 1994; but they are limited on grounds of when they can write off. The law change should provide the Commissioner greater flexibility as the impacts of COVID-19 will be variable.

<sup>13</sup> We anticipate this to be a highly technical area and would advise strongly seeking our advice on your current situation

### Impact –

- This will have a large impact on families that do not receive an income tested benefit and as a couple work less than 30 hours per week, or as a single parent work less than 20 hours a week;
- This will entitle these families to an additional tax credit which will be able to start from 1 July 2020 which will increase their payments.

A business cashflow and tax measures factsheet can be found [here](#) (NZ Treasury)

## Other Changes

### Child Support Payments

- Individuals having issues making child support payments by due dates should contact IRD, as it may be appropriate to re-estimate your income and reduce the assessment

### Unable to Pay Tax

Individuals having trouble paying outstanding tax can set up an instalment arrangement. This doesn't curb use of money interest but may reduce penalties, which can often lead to doubling your overall tax liability, if not actioned in a timely manner, however please note:

- Inland Revenue will not set up instalment arrangements when a taxpayer is not up to date on filing their tax obligations although exemptions do exist.
- Write-offs can be granted by Inland Revenue when a taxpayer faces serious hardship.
- Inland Revenue can often require an IR590 Disclosure of Financial Position to be filed as part of the application. We would strongly recommend seeking our advice prior to submitting this.

More information regarding Tax Debt can be found [here](#)

## Health Initiatives

The Government has pledged resources to assist Ministry of Health to combat COVID-19, as part of the Government package. The Ministry of Health website should be your primary source for information, although we accept that using media outlets as a source of information is a preferred option for our clients.

Media release from Hon Dr David Clark can be found [here](#)

Details of the Health Package as announced can be found [here](#)

## Banking Sector <sup>14</sup>

New Zealand Bankers' Association chief executive Roger Beaumont says customers financially affected by COVID-19, particularly small to medium sized businesses, are encouraged to contact their bank.

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.

## Debt & Insolvency

As the economic effects start to sink in, we will expect many businesses to consider debt and insolvency options when discharging their duties as a director. Depending on the nature of debt level and issues faced by the business, directors have several options such as:

- Negotiating repayment holidays
- Creditor compromises
- Receivership
- Voluntary administration
- Liquidation

We strongly advise speaking to us for professional advice before proceeding. We have a good relationship with insolvency practitioners and as your Accountants, are can offer advice on your individual situation.

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<sup>14</sup>New Zealand Business Review; Banking Sector update – available [here](#)