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Government to the rescue!

The government has released a \$12.1 billion relief package in an attempt to mitigate the worst economic impacts of COVID-19. This is the largest package released by the present government and as a percentage of GDP is larger than packages introduced in Australia, the United Kingdom and Singapore.



General components of the package

The main component of the relief package is a wage subsidy scheme. Under this scheme, eligible businesses will be provided a lump sum payment of \$585 per week per full-time employee and \$350 per week per part time employee for 12 weeks up to a cap of \$150,000. Additionally, those who are either self-isolating or contract coronavirus will receive a payment of \$585 per week, which can be applied for by their employer. This will not be available to those who can work from home and will only be in place for an initial 8-week period. In order to be eligible for the lump sum payment, a business will need to have suffered a 30% decline in revenue month on month for any month between January and June this year and have spoken to their bank about relief. The government expects this will cost \$5.1 billion.

Other key components of the package are:

- Benefits will be increased by \$25 per week
- The Winter Energy Payment for main beneficiaries and superannuitants will be doubled from \$450 to \$900 for singles and \$700 to \$1,400 for couples
- A \$100 million funding package to support worker redeployment and training
- A \$500 million funding package to support the health sector
- Further packages for the aviation sector and large employers will be announced in coming weeks. The wage subsidy scheme is available as of right now.

WHAT YOU SHOULD DO

There are a few steps you should take now:

- **Review your business' forecast cash flows for the next few months and in particular consider how much headroom you have if cash receipts fall. If you can foresee difficulties, start the conversation with your bank, your landlord and other stakeholders as appropriate, to put contingency plans in place. You may also need to review capital expenditure plans and make short term cost savings to help you through.**
- **Speak with your bank. In order to have access to the wage subsidy scheme, you need to have evidence of discussions with your bank. This is also sound commercial practice as it provides some room should economic conditions stay bad for longer than anticipated.**
- **Keep an eye on turnover. Again, in order to have access to the wage subsidy scheme, you need to have a 30% decline in revenue for any month between January and June compared with the same month in last year.**

Our team can help you with cashflow forecasting, reviewing your position and communicating with your key stakeholders.

Tax components of the package

The relief package has also been used as an opportunity to tweak tax settings in a manner consistent with the Tax Working Group's proposals from last year as well as implementing measures that businesses have been seeking for some time. Key tax components of the package are:

- Depreciation deductions for commercial and industrial buildings are being restored as of the 2021 year
- The threshold at which taxpayers become subject to provisional tax will increase from \$2,500 to \$5,000 as of the 2021 year
- The definition of low value assets will increase from \$500 to \$5,000 for the 2021 year before settling back to \$1,000 from the 2022 year onward
- Inland Revenue will be given more discretion to remit use of money interest if taxpayers cannot pay their tax due to COVID-19

Inland Revenue have announced they will remit use of money interest for payments due on or after 14 February 2020 where payment was not made on time due to COVID-19. This could apply for up to two years.

The full impact of these proposals will not be seen for several months; however, it is hoped this will encourage investment by the commercial sector and also ensure microbusinesses do not face cashflow constraints.

We welcome the relief package and its targeting of those who will be most affected. It means businesses can continue to keep workers employed without putting too much strain on their cash balances and it means workers have some certainty that income will still come in – even if they need to self-isolate and have run out of sick and annual leave.

Beyond the relief package, it is fortunate many of the natural circuit breakers have kicked in. The falling dollar will give exporters a boost once supply chains return to normal. Falling interest rates will give business and households reduced costs of borrowing, freeing up funds.

The Minister of Finance urged everyone to look after themselves, look after their families and look after our elderly. We agree with these sentiments and are doing what is necessary to keep people safe.

New Zealand has been through challenges over the years and we have come through the other side. This is but another one of those challenges.