

New Zealand announces significant COVID-19 Business Continuity Package

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Executive summary

On 17 March 2020, in response to the economic impact of COVID-19, the New Zealand Government released its NZ\$12.1 billion (US\$6.8 billion) Business Continuity Package (the Package). The Package is significant, representing 4% of New Zealand's GDP.¹

The measures announced will provide financial relief to both businesses through tax measures, and at-risk employees through a financial safety net. The Government has also announced significantly increased funding for the health sector to strengthen health services to fight and contain COVID-19.

This Alert summarizes the key highlights of the Package.

Detailed discussion

1. Tax and business cashflow measures

The Government announced changes to the tax rules with the Package, which will be expanded on in a new Bill to be introduced shortly:

- ▶ **Re-introduction of depreciation on commercial buildings** - The Government is reintroducing a 2% diminishing value depreciation rate for new and existing industrial and commercial buildings from the 2020/21 income year. This will have financial reporting impacts for taxpayers who recognize deferred tax in their financial statements as well as reducing provisional taxes payable immediately. The cost of this change at NZ\$2.1 billion (US\$ 1.2 billion) represents a significant portion of the overall Package.
- ▶ **Provisional tax relief** - The provisional tax threshold will increase to NZ\$5,000 from the 2020/21 income year relieving approximately 95,000 taxpayers from the need to pay income taxes in advance. Affected taxpayers, who will now have longer to pay any amounts owing, will welcome this deferral.
- ▶ **UOMI² write off** - New process to allow interest remissions for late paid taxes for taxpayers "significantly adversely" impacted by COVID-19, will apply from 14 February 2020. Details of the test will be announced in the coming days.
- ▶ **Low value asset write-offs** - The threshold that allows businesses to take upfront deductions for low-value assets has been lifted from NZ\$500 to NZ\$5,000 for assets acquired during the 2020/21 income year. The threshold will be reduced back to NZ\$1,000 from the 2021/22 income year.
- ▶ **Improved information sharing** - The current information sharing settings will be revised to ensure effective cross-government communication to support an all-of-government response to COVID-19.

2. Wage subsidization

The Government will be administering wage subsidies for employers of affected businesses who may otherwise face difficulties retaining their staff.

To qualify, businesses must be able to show a 30% decline in revenue due to COVID-19, month-on-month for any month between January and June 2020 (compared to last year). Employers are expected to approach their banks for financial assistance in the first instance.

Employers eligible to receive the subsidy will receive a lump-sum payment of the equivalent of NZ\$585/week for each eligible full-time employee, and NZ\$350/week for part-time employees. The subsidy will be capped at 12 weeks and NZ\$150,000 per businesses. Over a 12-week period the full subsidy equates to roughly 21 full-time employees per week.

The Government is undertaking further work to understand how best to provide support on a case by case basis for larger employers, for whom the wage subsidy will provide more limited financial relief.

The subsidy will be administered by the Ministry of Social Development and will also be available for those who are self-employed and working as contractors.

3. Supporting self-isolation with increased sick leave payments

Increases in sick-leave payments have been announced to incentivize self-isolation (being central to the New Zealand containment strategy).

Additional payments will be available for employees required to self-isolate, or care for others in self-isolation. Eligibility for these additional payments is open to all employees, who are not able to work remotely and who are required to self-isolate. These payments will not be available for persons required to self-isolate due to travel taken after 16 March 2020.

To qualify, employers will need to register to receive support based on the number of impacted employees, give undertakings that they will endeavor to employ at 80% of full income the affected employees, and include a declaration of steps taken to find independent financial support. False declarations would be treated as "fraud," as qualified in the announcement. The first payments will be made within five days of application.

4. Expansion of welfare support

The Government has announced three main changes in the Package to bolster welfare spending and support vulnerable individuals:

- ▶ **Main benefit increases** - From 1 April 2020, main-line benefits will increase by NZ\$25 on the after-tax rate. This is in addition to rate changes already announced, that will also come into effect on 1 April 2020.
- ▶ **Winter energy payment doubling** - The Winter Energy payment rates for the 2020 period (1 May to 1 October 2020) will double. Single people with no dependent children will receive NZ\$40.91 a week, and couples, and people with dependent children will receive NZ\$63.64 a week.
- ▶ **Removal of hours test for In Work Tax Credit** - From 1 July 2020, working families with children who are not receiving a main-line benefit and have some level of employment income each week will no longer have to satisfy the hours test to receive the In-Work Tax Credit.

Next steps

We are expecting legislation to enact the above changes will be progressed through Parliament in the coming days. The Government has suggested further operative details on the Package will be announced later this week, and a second wave of longer-term financial support to be announced in the May Budget this year.

Endnote

1. Gross Domestic Product.
2. Use-of-Money Interest.

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