

COVID-19: Small Business Cashflow Loan Scheme



The Small Business Cashflow Loan Scheme was announced on 1 May 2020 as part of the Government's COVID-19 support package for small New Zealand businesses. This is an initiative targeting viable small businesses whose trading activity has been significantly impacted by COVID-19 and the nationwide lockdown.

Scheme at a glance:

- Loans up to \$100,000 for small businesses based on their number of employees (up to 50 full time equivalent employees).
- Must be used to meet the entities core operating costs such as rent, utilities and supplier payments.
- Eligibility for the loan is linked to the Wage Subsidy criteria of 30% monthly revenue decline.
- Must not be drawn down by owners/shareholders as shareholder loans or dividends.
- 3% interest rate, or interest free if repaid within one year.
- No repayments required for the first two years.
- Maximum loan term of five years.

Eligibility criteria at a glance:

To be eligible for a loan under this scheme, an entity must:

1. Have 50 or fewer full time employees (this will be assessed on a group basis),
2. Confirm their entity is experiencing a 30% or more decline in actual or predicted revenue for the period

of one month between January 2020 to June 2020 compared to the same month last year (*as defined in the Wage Subsidy Scheme*). The entity is not required to have applied for the Wage Subsidy,

3. Declare they are a 'viable' business or organisation,
4. Confirm they will use the funds for core operating costs, and
5. Enter into a loan contract with the Government.

Entities who meet the eligibility criteria can apply for a base \$10,000 loan. With an additional \$1,800 available for each full time equivalent employee, up to a total of \$100,000.

If your entity employs both full time and part time employees, you need to confirm that the dollar amount you are eligible to receive under the Wage Subsidy Scheme is \$351,480 or less (*the Wage Subsidy rates are \$7,030 per full time employee and \$4,200 per part time employee*).

Businesses that are part of a commonly owned group will be treated as a single business when applying the 50 full time employee eligibility cap and for the purposes of assessing the available loan amount.

'Viable' business or organisation

To apply for a loan under the scheme, a business or organisation must confirm it is "viable". Inland Revenue note this generally means "the directors or owners have good reason to believe it is more likely than not the business or organisation will be able to pay its debts as they fall due within the next 18 months".

Inland Revenue have provided the following examples of evidence to show your business is viable:

- A cash-flow forecast for the business or organisation for the short term.
- A plan for where revenue will come from in future market conditions, and a forecast of those revenues.
- Financial statements showing the business or organisation has enough resources to sustain itself when including the loan under the scheme.

How many of the above examples are required to evidence a business is "viable" is unclear at this stage.

Applications and payment

The scheme will be administered by Inland Revenue with applications being made through MyIR (Inland Revenue's online platform). Applications for the scheme opened on 12 May 2020, for one month through to 12 June 2020. Inland Revenue is aiming to make payment of the loan funds within 5 working days of an application.

Practical tips

Below are some tips to effectively document and manage a loan received under the scheme:

1. Confirm whether your entity meets the 30% decline in revenue for the period of one month as defined in the Wage Subsidy Scheme. If you previously applied for the wage subsidy based on a predicted 30% decline in revenue, this is a good time to check whether you have met this criteria,
2. Document why your entity is 'viable' including business plans, pre COVID-19 financial information and future cashflow forecasts. Review, update and reforecast frequently,
3. Using your business plan and cashflow forecasts, consider which core operating expenses the loan funds should be applied to, and whether an amount should be retained for unexpected contingencies,
4. Keep loan funds received in a separate bank account from other funds to ensure you can track expenditure that the funds are applied to should this be queried or audited in the future,
5. Consider the trade off between repaying the loan within one year to take advantage of the interest free concession or incurring the 3% interest charge to maintain an additional working capital facility for a longer period of time.

If you are a small business who needs assistance with cashflow forecasting, please connect with one of our private business advisers or register your interest on our [online form](#)

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