

# Government announces \$12.1 billion package to address the impact of COVID-19

As the true global impact of the novel Coronavirus COVID-19 on businesses and individuals continues to unfold, the Government has announced a \$12.1 billion (which represents 4.0% of New Zealand's GDP) fiscal stimulus package to address these challenges.

This is an evolving situation which is likely to have serious public health, social, and economic consequences. The package contains a number of measures to address some of these consequences, including wage subsidies aimed at keeping people employed, an increase in social benefits, and tax changes that aim to alleviate some of the pressure tax may impose on cash flow.

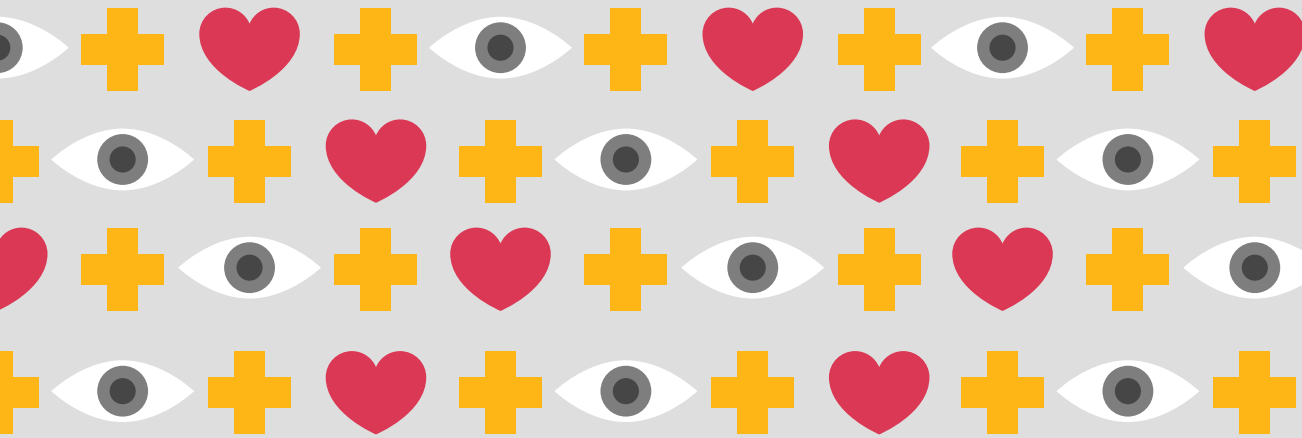
It will be important that these measures are easily accessible for businesses and individuals. Time will be a key factor whereby getting the cash in the hands of those in need will be critical.

## Support for businesses

### Wage subsidies

A substantial part of the package is dedicated towards providing wage subsidies to businesses, which is intended to stabilise employment and provide some level of financial certainty for employees. The subsidy will be available to businesses or sectors that can demonstrate a decline in monthly revenue of 30% and covers the period from January to June 2020. From today, employers can access the subsidy by way of an online application to the Ministry of Social Development (MSD). The payments will be \$585.80 per week for a full-time employee (20 hrs or more) or \$350.00 per week for a part-time employee (less than 20 hrs). The payment will be made as a lump sum for a period covering 12 weeks. The maximum amount any one employer can receive is \$150,000.





To qualify, employers will be required to declare that they intend to employ affected employees at a minimum of 80% of their usual pay for the subsidy period and take active steps to mitigate the impact of COVID-19.

### Leave and self-isolation support

A further \$126 million of funding will be provided for COVID-19 leave and self-isolation support. This payment will be available to employees and the self-employed in self-isolation or otherwise unable to work and be paid normally due to COVID-19. The payments will be \$585.80 per week for full time and \$350 per week for part-time workers and does not affect any paid leave entitlements. The payments may be backdated to 17 March 2020. Again, employers will be required to apply online for the payment from MSD and can do so from today.

### Tax changes

A number of tax changes have been announced that are intended to help businesses improve cash flow and stimulate business investment. The package will cost the Government \$2.8 billion, and includes the following measures:

- Reintroducing depreciation on industrial and commercial buildings (including motels and hotels) from the start of the 2020-21 tax year. The diminishing value rate will be 2% (a separate straight-line rate will be announced later).
- Low-value assets can be deducted immediately and are not required to be deducted over time under the depreciation rules. This is currently limited to assets valued at less than \$500, but the low-value asset limit will be temporarily increased to \$5,000 from the start of the 2020-21 income year. The threshold will eventually be reduced to \$1,000 from the 2021-22 income year.
- The provisional tax threshold for the 2020-21 income year will rise to \$5,000, up from \$2,500. This measure will ensure that fewer businesses will be required to pay provisional tax throughout the year.

- For the next two years, use of money interest (UOMI) on late payment of tax will be waived for businesses affected by the COVID-19 outbreak. The relief will apply to interest on all tax payments (including provisional, PAYE, and GST) due on or after 14 February 2020. Affected taxpayers will be required to demonstrate that their inability to pay tax arose as a result of COVID-19. Details about how this will operate in practice will be released in a subsequent announcement.

We welcome these measures which we consider will provide some support for a number of businesses. However, we do see further opportunities to make a more meaningful impact for businesses such as targeted support for small and medium-sized businesses and businesses in a tax loss position.

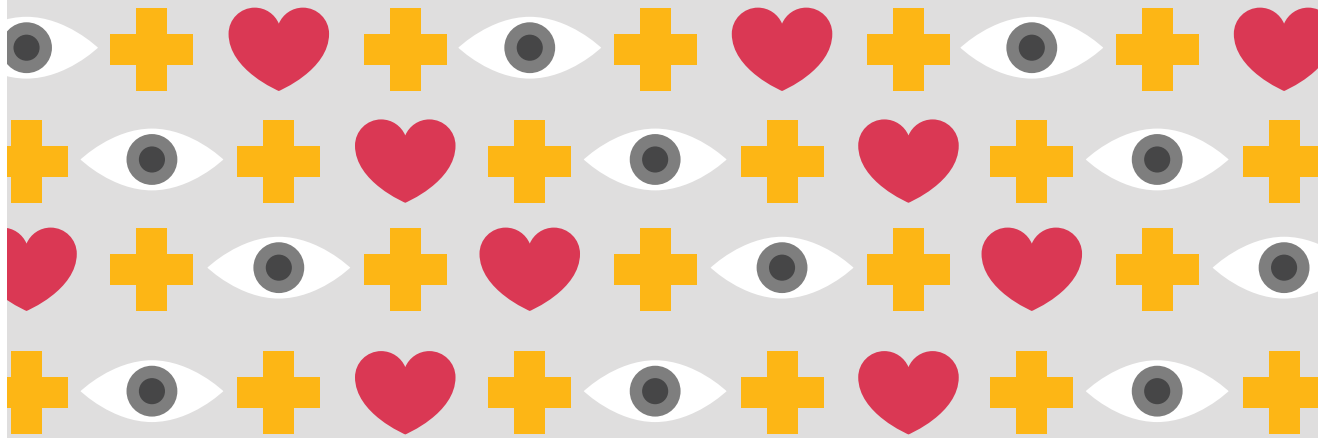
### Support for individuals

The Government has also announced increases to a number of social entitlements, including a permanent increase of \$25 a week for all main benefits (effective from 1 April 2020) and an increase to the recently introduced Winter Energy Payment. Recipients will not be required to apply for the additional entitlements as the increases will be applied universally to those already entitled to receive the relevant payments.

Changes to the In Work Tax Credit (ITC) will apply from 1 July 2020, which will remove the existing requirement to be working at least 20 hours a week (for sole parents) or 30 hours a week (for couples) to be eligible to receive the credit. This means those families currently receiving the ITC will continue to receive this support even if their work hours are impacted by COVID-19.

### Health funding

A dedicated \$500 million fund has been announced, which will be used to increase intensive care capacity and equipment, support for GPs and primary health providers, and technological solutions such as telehealth consultations. Healthline will receive a further \$20 million in funding to hire more staff.



## Our thoughts

In his speech to Parliament, the Minister of Finance acknowledged that this is an evolving situation and this package is intended to be a starting point for further support. The Minister committed to significant further spending in the upcoming 2020 Budget (scheduled to be released on 14 May 2020) to address the impacts of COVID-19. Further support signalled by the Minister includes working capital support for small and medium businesses and targeted support for larger and complex businesses.

We welcome the announcements as they provide immediate and significant support during these uncertain times. The cash from the \$5.1 billion of wage subsidies and \$2.8 billion of social entitlements will start flowing almost immediately into the economy over the next few months, which is important. The cash impact of the business tax package is spread over a longer four-year period and will start turning up in reduced provisional tax payments in the second half of this calendar year, at least for those businesses still in a taxable profit. It will be important to ensure that the delivery of these support programmes is carried out in a way that makes it easily accessible for affected businesses and individuals.

We acknowledge that this is a difficult time for many individuals and businesses. If you would like to discuss how these measures can support you and your business, please contact your PwC adviser.

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