COVID-19 Update - 9 April 2020

# In Brief
# COVID-19 Wage Subsidy Scheme - Accounting implications

## At a glance

The global COVID-19 pandemic continues to prompt the New Zealand government to introduce measures to help soften the economic impact. This issue looks at the Wage Subsidy Scheme and the accounting implications it has for both for-profit and public benefit entities.

## What's the issue?

The Wage Subsidy Scheme is a substantial part of the NZ Government's economic response to COVID-19. It is intended to stabilise employment and provide some level of financial certainty for employees. Employers that meet certain criteria can apply for a wage subsidy from the NZ Government. A 12 week lump sum payment is made to entities for each employee they apply for. The lump sum is calculated at a flat rate of $585.50 per week for employees working 20 hours or more per week and $350 per week for those working less than 20 hours per week. There are also ongoing compliance obligations and in certain circumstances, the possibility of clawback following disbursement. Further information on the wage subsidy may be found on the Work and Income website here.

Management will need to assess the impact of the wage subsidy on their financial statements. Different accounting standards apply depending on whether the employer is a for-profit entity or a public benefit entity (PBE).

## Accounting implications

### For-profit entities

**What is the applicable accounting standard?**

Although the funds received by the employer are passed on to its employees, the employer is the recipient of the subsidy and it must meet certain conditions to be eligible. The employer entity is therefore not acting as an agent for the employee but on its own behalf and the subsidy must be accounted for in the entity's financial statements.

The wage subsidy meets the definition of a government grant and is in the scope of NZ IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*.

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### When should the subsidy be recognised?

Entities should recognise the subsidy when there is reasonable assurance (as per NZ IAS 20) that they comply with the conditions of the grant and the subsidy will be received.

The following conditions apply to the wage subsidy:

- *30% reduction in revenue due to COVID-19:* Entities need to demonstrate a year-on-year 30% reduction in actual or projected revenue in any month between 20 January 2020 and 9 June 2020 that is caused by the COVID-19 outbreak and response.
- *Active steps to mitigate the impact of COVID-19:* The entity must have taken active steps to mitigate the impact of COVID-19. Active steps may include activating business continuity plans, making insurance claims, proactively engaging with banks, and seeking advice and support from the Chamber of Commerce, relevant industry associations and the Regional Business Partner programme.
- *80% of usual wages:* Entities must retain employees for the period of the subsidy (i.e. 12 weeks) and do their "best" to pay at least 80% of their usual wages.

Before submitting the application, the entity should confirm that it will satisfy these conditions. It should therefore have reasonable assurance (in accordance with NZ IAS 20) that the subsidy will be received and a subsidy receivable asset should be recognised on submission of the application. A deferred income liability will also be recognised when the subsidy receivable asset is recognised.

Due to the urgency of providing this relief scheme, many of the initial applications have been accepted on a declaration and honour basis without verification of whether the eligibility requirements have been met. Some entities have made applications without thoroughly assessing that they can meet the eligibility criteria. Entities should ensure they have sufficient evidence to support that the conditions are satisfied at the time of application.

For further guidance on practical issues, refer to our [Practical guide to Wage Subsidy support for New Zealand businesses].

### When should the subsidy be recognised as income?

Government grants are recognised in profit or loss on a systematic basis over the periods in which the entity recognises as expenses the related costs for which the grants are intended to compensate. The lump sum payment is a subsidy for 12 weeks of wages and salaries and entities are required to retain and pay each employee for whom the subsidy is provided for at least the 12 week period. Therefore, entities should release the deferred income liability as the related wages and salaries are incurred and recognise the income in profit or loss over the 12 weeks covered by the wage subsidy.

### Should the liability be recognised on a straight-line basis over this period?

Generally, yes. There may be instances where an employee's usual wages are below the weekly allocated subsidy amount for that individual. For example, the wage subsidy for employees working less than 20 hours is $350. If a part-time employee ordinarily earns $200 per week, they must continue to be paid $200 and the excess of $150 would be retained by the employer. This excess must be used towards the wages of other affected employees who would ordinarily earn more than the allocated subsidy. If there are no other employees to allocate the excess to, the excess would remain as a deferred income liability until the amount is repaid.

### What other conditions may trigger a clawback of the wage subsidy?

Outside of non-compliance, entities may also need to repay the subsidies they have received and used to the extent that the expense is also covered by business interruption insurance. While many businesses would have such insurance in place, in practice, acceptance of an insurance claim by the insurer may take time.

If an insurer subsequently accepts a claim for business interruption which covers employee wages, the repayment of any of the wage subsidy shall be accounted for as a change in accounting estimate. Repayment of the wage subsidy shall first be applied against any unamortised deferred income liability. To the extent that the repayment exceeds this liability, the repayment is recognised immediately in profit or loss. Any proceeds from insurance will also be recognised in profit or loss.

**Disclosure**

Disclosure requirements of NZ IAS 20 apply.

**Presentation**

NZ IAS 20 provides flexibility in whether to show a grant related to income as “Other Income” or net against the related expense.

Any grant income received should be presented on the cash flow statement in a manner appropriate to the business in accordance with NZ IAS 7 *Statement of Cash Flows*.

## Public benefit entities

**What is the applicable accounting standard?**

As for for-profit entities, a public benefit entity (PBE) employer would be considered the principal in the arrangement and should account for the subsidy in its own financial statements.

There is no equivalent to NZ IAS 20 in the suite of PBE Standards. The wage subsidy receivable / received from the government meets the definition of revenue from non-exchange transactions and therefore the applicable standard is PBE IPSAS 23 *Revenue from non-exchange transactions.*

**When should the subsidy be recognised?**

An entity recognises an asset arising from a non-exchange transaction when it gains control of resources and satisfies the recognition criteria in IPSAS 23. This occurs when the resource is controlled by the entity as a result of past events, and from which future economic benefits or service potential are expected to flow to the entity and the fair value of the asset can be measured reliably. These criteria appear to be met when a valid claim form is submitted that meets the eligibility conditions. Therefore, the amount of the claimed wage subsidy should be recognised as an asset at that point in time.

**When should the subsidy be recognised as income?**

The subsidy is received by the employer in a 12-week lump sum but is then paid out to the employee over time (in line with normal salary or wage payments). If the subsidy is not paid out to the employees it has to be returned to the government. Therefore the employer should recognise a liability when the subsidy asset is first recognised. As the employer pays the wages or salary to the employee, it reduces the liability and recognises revenue in the statement of comprehensive revenue and expense.

**Disclosure**

Disclosure requirements of PBE IPSAS 23 apply.

**Presentation**

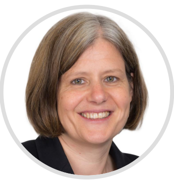
Presentation should be ‘gross’ as the receipt of the wage subsidy and payment of salary are two separate transactions.

# Need more information?

If you wish to discuss this or any other financial reporting related matter, please contact your usual PwC contact or one of the following financial reporting specialists:

**Stephen Hogg**
Partner, Auckland
stephen.c.hogg@pwc.com

**Tiniya du Plessis**
Partner, Auckland
tiniya.b.du.plessis@pwc.com



**Lesley Mackle**
Executive Director, Wellington
lesley.j.mackle@pwc.com

**Robert Harris**
Partner, Christchurch
harris.r@pwc.com