

COVID-19 Wage Subsidy Scheme FAQs

Your questions, answered



Determining 30% decline in revenue related to COVID-19

Indications are that Officials are taking a pragmatic approach to the assessment of the 30% reduction in revenue. However, the official guidance provided is below.

If your particular circumstances cannot meet with this Guidance, then whilst you should still consider making a claim, be prepared for it to be subject to additional questions and possible rejection. It was acknowledged by Officials that not all scenarios could be contemplated

though, hence the recommendation to still consider a claim.

With the move to Level 3 and Level 4, the reality is that many businesses may qualify as they may have no revenue e.g. if a business compares April 2020 to April 2019, most will see at least a 30% drop.

Extract from: workandincome.govt.nz/products/a-z-benefits/covid-19-support

What does a 30% decline in revenue mean?

This means a business has experienced a 30% decline in:

- actual revenue, or
- predicted revenue (e.g. for businesses who have seen a reduction in bookings such as accommodation providers), and
- that decline is related to COVID-19.

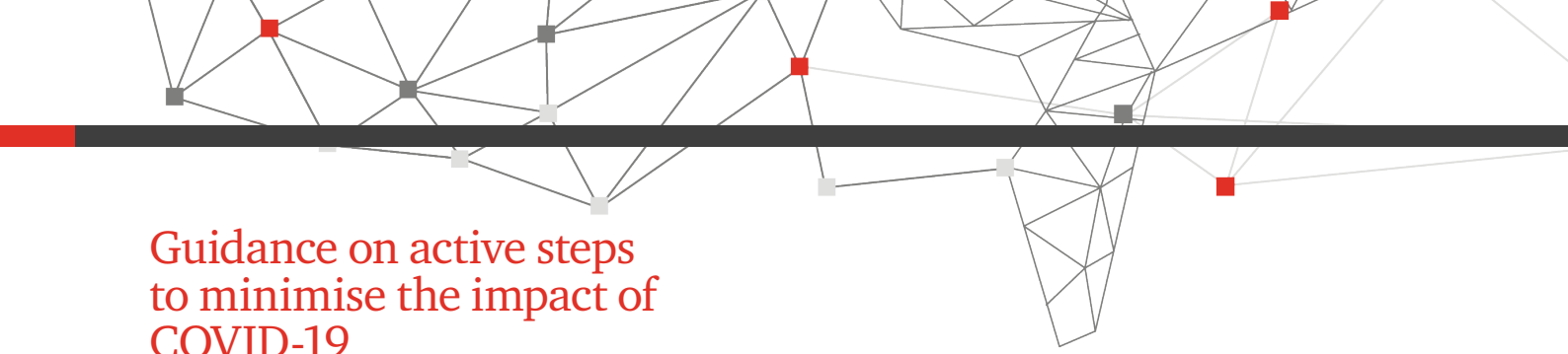
The business must experience this decline between January 2020 and 9 June 2020.

Definition of revenue

Revenue means the total amount of money a business has earned from its normal business activities, before expenses are deducted.

Determining a decline in revenue

To determine a decline in revenue, the business must compare one month's revenue against the same month the previous year (e.g. February 2020 compared with February 2019). The revenue of the month in the affected period must be at least 30% less than it was in the month it was compared against.



Guidance on active steps to minimise the impact of COVID-19

Can a claim still be lodged if you have the financial means to sustain the business (bank/other funding) despite the 30% drop in revenue?

WINZ's guidance is that a business taking an active step includes:

- Drawing from your case reserves (as appropriate)
- Activating your business continuity plan
- Making an insurance claim
- Proactively engaging with your bank
- Seeking advice and support from:
 - The Chamber of Commerce
 - A relevant industry association
 - The Regional Business Partner programme.

Our view is that the wage subsidy is not intended to be a "last resort", as such it is not necessary that the business must have exhausted all other means before a claim can be made.

Demonstrating best endeavours to pay 80% of normal income for the period

As of 4pm 27 March 2020, the enhanced scheme applies. While businesses must still undertake "best endeavours" to pay employees 80% of their pre-COVID income, where that is not possible – in particular where a business has no activity whatsoever due to the shutdown and workers are not working any hours – they must pass on at least the whole value of the wage subsidy to each affected worker.

Based on our discussions with MBIE, we understand the expectation is that businesses keep the employee employed throughout the subsidy period and at least pay the employee the subsidy amount, even if the 80% is not achievable.

Employers should consider their employment law obligations where they will not be paying employees their usual wages and importantly, meet their "good faith" obligations.

The commentary from the Government regarding the Wage Subsidy has no specific guidance on how a business reduces an employee's salary and wage. As there have been no amendments to Employment Law, the 'normal' considerations apply.

What if I make a claim, and then we are still required to make people redundant?

As of 4pm 27 March 2020, there is a requirement on the employer to keep the employee in employment for the duration of the subsidy period.

How does Employment Law fit into the current landscape?

The current Covid-19 situation has not changed an employer's requirement to act in good faith, and the expectation is that there is consultation with employees. It is our belief that this, at least in part, underpins the rationale for requiring employers to advise employees that they are applying for the subsidy.

We can assist with the HR considerations and communications, and PwC Legal can assist with any specific Employment Law questions.

Can Annual Leave be paid with the funds from wage subsidy?

For the purposes of the wage subsidy, there are no specific requirements and the employer can pay the employee using annual leave. MBIE confirmed that eligibility for the wage subsidy is a separate consideration to any other legal requirements – i.e. the payment of the wage subsidy does not change or remove obligations such as those imposed under the various employment legislation such as the Employment Relations Act, the Holidays Act etc.

"Holiday Pay", as generally spoken about, is annual leave. If employers and employees agree to use-up annual leave, then it can be used and would contribute to the 80% figure. It can however be agreed between employer and employee that the employee will be on leave for, for example, 4 days out of 5 (with one day being unpaid leave), that would satisfy the 80% requirement.

Do employees still accrue leave while they are getting the 80%?

Yes, unless the other legislation governing this is changed. The 80% would seem to be treated as ordinary salary/wage in the hands of the employee.

What is the Payroll / income tax treatment of the subsidy?

Wage subsidies and self-isolation leave payments should be passed on to the employee by the employer and processed as part of the employee's normal wages. All deductions of PAYE, KiwiSaver, Student Loans, Child Support, etc are made as normal.

If the total wage (subsidy + employer funded pay) amounts to the same wages as previously, the pay and deductions on their payslip should be the same.

The employer will not be liable for income tax or GST on the subsidy received from MSD and will not be entitled to an income tax deduction for wages paid out of the wage subsidy.

Those that are self employed, such as contractors, will need to include the Subsidy as taxable income in their IR3.

Please note that from 3pm on 27 March 2020 the Leave Payment is no longer available however people who applied prior to this will still have their applications processed.

Shareholder employees

If a shareholder works for the business and is paid a wage, salary or draws an income for the work they do for the business, they are eligible for the wage subsidy.

The shareholder(s) should apply on the same form as the employees if they work in the business.

If a shareholder / employee has no historic record of salary and wages being paid via Payday Filing, it is reasonable to expect questions before the application is approved. We recommend that the history of drawings and income tax paid accordingly is documented and kept on file to support the application.

Can a shareholder/employee claim for themselves twice if they run 2 distinct companies?

Yes two claims can be made by two separate employers to a single person as long as the criteria are met for each.

Multiple claims

Is it true that a business can only make one claim?

We have confirmed with MBIE Officials that if an initial claim is only made for some employees, a further supplementary claim can be made for those employees not included in the original claim. This is consistent with the latest guidance from MSD.

What if I made a claim when there was a \$150,000 cap, and the cap has now been removed. Can I make a further claim?

If you have already applied for and been granted the wage subsidy for your employees and MSD has capped the amount paid, MSD has advised that the difference will be topped up automatically.

If you have applied for the wage subsidy for your staff, and claimed only enough to meet the cap, once you have used this subsidy, you can reapply.

What happens when the Subsidy exceeds an employees normal pay?

On 28 March 2020 the Minister of Finance clarified that employers are only required to pay the normal wage of the employee if that amount is less than the subsidy amount.

It was noted that the Policy intent of the scheme is to provide employers with support to pay the wages of employees. Accordingly, the Minister also confirmed what MBIE Officials had advised to us that it is acceptable to use any excess subsidy for one employee to subsidise another employee who earns more than the subsidy amount.

To illustrate, the one part-time employee that usually gets \$250 will still get \$250. The excess subsidy of \$100 can then be used to help contribute to another employee's wages.

We strongly recommend that the employer evidence that the subsidy has been paid to employees.

What time period does the subsidy cover?

The subsidy payment covers a twelve week period. Applications could be made from 17 March 2020.

How do I assess whether my casual staff qualify for the full time or part time subsidy rate?

Extract from: www.workandincome.govt.nz/products/a-z-benefits/employer-questions-and-answers

Casual employees may have variable hours, so to assess their subsidy rate, the employer should average their hours over the last year. If this average is 20 hours or more, they can apply for the full-time rate, and if it's under 20 hours they can apply for the part-time rate.

If they have worked for less than a year, the employer should average the hours worked during their total employment period.

For all our guidance related to COVID-19, please visit www.pwc.co.nz/covid-19

