

# **COVID-19 Response (Taxation and Other Regulatory Urgent Measures) Bill**

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*Supplementary commentary on the Small Business Cashflow  
Scheme*

**Hon Stuart Nash**  
Minister of Revenue

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# Small Business Cashflow Scheme

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## **INTRODUCTION**

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The Bill provides authorisation for the Commissioner to grant loans under a Small Business Cashflow Scheme and to administer a scheme on behalf of the Government. A further provision enables information sharing between Inland Revenue and the Ministry of Social Development for the purposes of the administration of a loan scheme.

## **SMALL BUSINESS CASHFLOW SCHEME**

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*(Clause 5, 6, 19, 23)*

### **Summary of proposed amendment**

This Bill provides for a number of provisions to support a small business cashflow (loan) scheme (SBCS). It amends the Income Tax Act 2007 and the Tax Administration Act 1994. Such a scheme would be administered by Inland Revenue.

### **Application date**

The proposed amendment would apply from 15 April 2020.

### **Key features**

The Bill provides for a number of amendments to support a SBCS:

- the insertion of a new section 7AA of the Tax Administration Act 1994 which authorises the Commissioner of Inland Revenue to enter into a loan contract with an applicant;
- an amendment to schedule 7 of the Tax Administration Act 1994 to facilitate the exchange of information between Inland Revenue and the Ministry for Social Development for the purposes of administration of a SBCS; and
- amendments to the Income Tax Act 2007 to ensure that any conversion of a portion of the loan to a grant will not have adverse income tax implications for the applicant.

### **Background**

The Bill proposes a number of amendments to support a SBCS if introduced to assist small to medium businesses who are adversely affected by COVID-19.

The SBCS would be administered by Inland Revenue and the Bill provides a number of amendments to support the administration of a SBCS.

### **Detailed analysis**

Clause 19 of the Bill amends the Tax Administration Act 1994 to give the Commissioner of Inland Revenue the ability to enter into a loan agreement with an applicant under a SBCS. It provides for the Commissioner to be able to receive information from the applicant for the loan and the repayment of the loan where the applicant does not meet any criteria for a SBCS.

It also provides for a loan contract issued by the Commissioner not to be a credit contract or a consumer contract for the purposes of the Credit Contracts and Consumer Finance Act 2003.



The Bill also provides for schedule 7 of the Tax Administration Act 1994 to be amended to provide for the facilitation of the exchange of information between Inland Revenue and the Ministry of Social Development for the purpose of administering a SBCS.

It provides for the exchange of information for the wage subsidy scheme. The Commissioner will be able to use this information in connection with any of the Commissioner's duties, powers or functions under the Inland Revenue Acts.

Two amendments are also made to the Income Tax Act 2007 in clauses 5 and 6. Section DF1(1)(cb) will be added to ensure that business expenditure that is paid by the loan continues to be tax deductible if any part of the loan is converted to a government grant.

The second amendment ensures that if conversion to a grant occurs this does not trigger debt forgiveness income under the financial arrangement rules. Section EW 45 is amended to include any release from an obligation to repay a SBCS loan through conversion to a grant. This will ensure the base price adjustment does not result in taxable income to the recipient.