# Hon Grant Robertson, Minister of Finance

# Hon Carmel Sepuloni, Minister for Social Development and Employment

# Hon David Parker, Minister of Revenue

# Hon Stuart Nash, Minister for Small Business

## Information Release

## COVID-19 resurgence support payment and Minimum Family Tax Credit threshold increase

## July 2021

**Availability**

This information release is available on Inland Revenue's tax policy website at https://taxpolicy.ird.govt.nz/publications/2021/2021-ir-covid-19-resurgence-support

**Documents in this information release**

| # | Reference | Type | Title | Date |
|---|---|---|---|---|
| 1 | IR2020/475<br>T2020/3524<br>REP/20/11/1105 | Policy report | Adjustments to the Minimum Family Tax Credit (MFTC) for the 2021 and 2022 income years | 20 November 2020 |
| 2 | IR2020/488<br>T2020/3583 | Policy report | Further decisions on a new Business Support Grant | 27 November 2020 |
| 3 | IR2020/505<br>T202/3657 | Policy report | Further information and decisions on the Resurgence Support Payment | 3 December 2020 |
| 4* | CAB-20-SUB-0512 | Cabinet paper | Increasing main benefit abatement thresholds on 1 April 2021 and consequential adjustment to the Minimum Family Tax Credit<br>Also available on MSD's website[1] | 7 December 2020 |

[1] Available at https://msd.govt.nz/about-msd-and-our-work/publications-resources/information-releases/cabinet-papers/2021/increasing-main-benefit-thresholds.html

| # | Reference | Type | Title | Date |
|---|---|---|---|---|
| 5* | CAB-20-SUB-0512 | Regulatory impact assessment | Increasing main benefit abatement thresholds on 1 April 2021 and consequential adjustments to the Minimum Family Tax Credit<br>Also available on MSD's and Inland Revenue's websites[2] | 3 December 2020 |
| 6* | CAB-20-MIN-0512 | Cabinet minute | Increasing main benefit abatement thresholds on 1 April 2021 and consequential adjustment to the Minimum Family Tax Credit<br>Also available on MSD's website[3] | 7 December 2020 |
| 7* | CAB-20-SUB-0531 | Cabinet paper | Economic response to future resurgences of COVID-19<br>Also available on The Treasury's website[4] | 14 December 2020 |
| 8* | CAB-20-MIN-0531 | Cabinet minute | Economic response to future resurgences of COVID-19<br>Also available on The Treasury's website[5] | 14 December 2020 |
| 9 | IR2021/010<br>T2021059<br>MBIE2021/1986 | Policy report | Further decisions for the Resurgence Support Payment | 19 January 2021 |
| 10 | IR2021/034<br>T2020/132 | Policy report | Draft Cabinet paper – Taxation (COVID-19 Resurgence Support Payments and Other Matters) Bill: Approval for introduction | 29 January 2021 |
| 11 | CBC-21-SUB-0024 | Cabinet paper | Taxation (COVID-19 Resurgence Support Payments and Other Matters) Bill: Approval for introduction | 10 February 2021 |
| 12 | CBC-21-SUB-0024 | Supplementary analysis report | Resurgence support payments supplementary analysis report | 28 January 2021 |
| 13 | CAB-21-MIN-0013.01 | Cabinet minute | Taxation (COVID-19 Resurgence Support Payments and Other Matters) Bill: Approval for introduction | 15 February 2021 |

[2] See footnote 1 and https://taxpolicy.ird.govt.nz/publications/2021/2021-ria-thresholds-mftc

[3] See footnote 1

[4] Available at https://www.treasury.govt.nz/publications/cabinet-paper/cab-20-sub-0531-economic-response-future-resurgences-covid-19

[5] Available at https://www.treasury.govt.nz/publications/cabinet-minute/cab-20-min-0531-economic-response-future-resurgences-covid-19

| # | Reference | Type | Title | Date |
|---|---|---|---|---|
| 14 | IR2021/067 | Policy report | Final decisions on the length of the COVID-19 Resurgence Support Payment revenue decline period | 15 February 2021 |

* These documents are publicly available on other agencies' websites and are included for completeness.

## Additional information

The COVID-19 resurgence support payment and Minimum Family Tax Credit threshold increase were included in the Taxation (COVID-19 Resurgence Support Payments and Other Matters) Bill. The Bill was introduced to Parliament and passed through all stages under urgency on 16 February 2021. It was enacted as the Taxation (COVID-19 Resurgence Support Payments and Other Matters) Act 2021 on 18 February 2021.

***CAB-20-SUB-0512 – Increasing main benefit abatement thresholds on 1 April 2021 and consequential adjustment to the Minimum Family Tax Credit***

The Cabinet paper was considered and confirmed by Cabinet on 7 December 2020.

The Cabinet paper, regulatory impact assessment, and minute are also available on the Ministry of Social Development's website.[6] They are included in this information release for completeness.

***CAB-20-SUB-0531 - Economic response to future resurgences of COVID-19***

The Cabinet paper was considered and confirmed by Cabinet on 14 December 2020.

The Cabinet paper and minute are also available on The Treasury's website.[7] They are included in this information release for completeness.

***CBC-21-SUB-0024 - Taxation (COVID-19 Resurgence Support Payments and Other Matters) Bill: Approval for introduction***

The Cabinet paper was considered by the Cabinet Business Committee on 10 February 2021 and confirmed by Cabinet on 15 February 2021.

Two attachments to Cabinet paper CBC-21-SUB-0024 are not included in this information release as they are publicly available:

- Departmental disclosure statement for the Taxation (COVID-19 Resurgence Support Payments and Other Matters) Bill[8]
- Taxation (COVID-19 Resurgence Support Payments and Other Matters) Bill[9]

## Information withheld

Some parts of this information release would not be appropriate to release and, if requested, would be withheld under the Official Information Act 1982 (the Act). Where this is the case, the relevant sections of the Act that would apply are identified. Where information is withheld, no public interest was identified that would outweigh the reasons for withholding it.

Sections of the Act under which information was withheld:

9(2)(a) to protect the privacy of natural persons, including deceased people

[6] See footnote 1
[7] See footnotes 4 and 5
[8] Available at http://disclosure.legislation.govt.nz/bill/government/2021/8/
[9] Available at https://legislation.govt.nz/bill/government/2021/0008/latest/versions.aspx

| | |
|---|---|
| 9(2)(f)(iv) | to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials |
| 9(2)(j) | to enable the Crown to negotiate without disadvantage or prejudice |
| 9(2)(k) | to prevent the disclosure of official information for improper gain or improper advantage |

Inland Revenue
Te Tari Taake

POLICY AND STRATEGY

MINISTRY OF SOCIAL DEVELOPMENT
TE MANATŪ WHAKAHIATO ORA

TE TAI ŌHANGA
THE TREASURY

**Tax policy report:** **Adjustments to the Minimum Family Tax Credit (MFTC) for the 2021 and 2022 income years**

| | | | |
|---|---|---|---|
| **Date:** | 20 November 2020 | **Priority:** | High |
| **Security level:** | In Confidence | **Report number:** | IR2020/475<br>T2020/3524<br>REP/20/11/1105 |

## Action sought

| | Action sought | Deadline |
|---|---|---|
| Minister of Finance | **Agree** to recommendations<br>**Note** the contents of this report | 23 November 2020 |
| Minister for Social Development and Employment | **Agree** to recommendations<br>**Note** the contents of this report | 23 November 2020 |
| Minister of Revenue | **Agree** to recommendations<br>**Note** the contents of this report | 23 November 2020 |

## Contact for telephone discussion (if required)

| Name | Position | Telephone |
|---|---|---|
| Maraina Hak | Policy Lead, Families & Individuals, IR | s 9(2)(a) |
| Eina Wong | Principal Policy Advisor, Families & Individuals, IR | |
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**In Confidence**

19 November 2020

Minister of Finance
Minister for Social Development and Employment
Minister of Revenue

## Adjustments to the Minimum Family Tax Credit (MFTC) for the 2021 and 2022 income years

### Executive summary

1. Recent and proposed changes to main benefit settings have implications for the Minimum Family Tax Credit (MFTC). On 30 November 2020, the Minister for Social Development and Employment intends to seek decisions from Cabinet on increasing the benefit abatement thresholds. This will have an impact on the MFTC threshold for the 2022 income year.

2. In March 2020, the Government increased main benefit rates by $25 per week and temporarily doubled the Winter Energy Payment. This will have an impact on the MFTC threshold for the 2021 income year.

3. Ministers have decisions on whether to increase the MFTC threshold for the 2022 income year (the prospective change) and the 2021 income year (the retrospective change).

4. The purpose of the MFTC is to ensure that families in work are financially better off than they would be on a benefit. While it is available to low-income couples with dependent children, the primary focus of the credit is to improve the financial incentive for sole parents to be off benefit.

5. The current annual income threshold is $27,768 after tax ($534 per week). Around 3,800 families received this credit in income year 2020, totalling $12 million. The average payment amount is $3,100 per family. Around 90% of MFTC customers are sole parent families.

6. The MFTC threshold has been adjusted each year since 2006 to reflect changes to main benefit settings.

*2022 MFTC threshold (the prospective change)*

7. The proposed benefit abatement threshold changes have a total cost of $290.568 million over the forecast period. The increase to benefit abatement thresholds will have a large consequential impact on the MFTC threshold from 1 April 2021.

8. There are two potential options for increasing the MFTC threshold. A full alignment to include the benefit abatement thresholds would maintain the original policy intent of providing low-income families a financial incentive to work and move off benefit. This alignment will increase the MFTC threshold to $32,604 after tax, at a cost of $77.7 million over the forecast period. **Inland Revenue recommends the full alignment option.**

9. An alternative option is to increase the MFTC threshold to a rate where sole parents remain incentivised to move and remain off benefit. This threshold broadly adjusts for the $25 per week benefit rate increases from March 2020 and for the annual general adjustment for benefit settings for the 2022 year. This would not align the MFTC threshold to the benefit abatement threshold increases (should they be agreed), and so would not fully meet the policy intent of the MFTC. However, this

would have a lower fiscal cost, and sole parents would have a financial incentive to remain off benefit and in work. This change would increase the MFTC threshold to $30,576 at a total cost of $38.25 million over the forecast period. **MSD recommends the partial alignment option.**

10. A third option is to not make a change to the MFTC threshold. This would not meet the intent of the MFTC, and over 3,000 families, most of whom are sole parents, will be financially incentivised to remain on a benefit when in work. The total net fiscal impact arising from an increased uptake of main benefits and the Winter Energy Payment is likely to be small. **Treasury recommends the no adjustment option due to the tight fiscal environment** (further Treasury comment below).

11. s 9(2)(f)(iv) [redacted]

*2021 MFTC threshold (the retrospective change)*

12. As part of its response to COVID-19 in March 2020, the previous Government agreed to increase the main benefit payments by $25 per week and temporarily doubled the Winter Energy Payment from 1 April 2020. Due to the urgent pace at which the benefit payments were changed, the decision to change the MFTC threshold was not considered.

13. Ministers now have an option to retrospectively adjust the MFTC threshold. One option is to adjust it for the $25 per week benefit increase, which would result in all MFTC customers gaining by $32 each week they received the MFTC (an average gain of $1,280 per family) in the 2021 income year. This would have a fiscal cost of $4.7 million.

14. If Ministers wish to adjust the MFTC threshold for the 2021 income year, Inland Revenue could begin paying customers the higher MFTC payment from late December 2020. This would provide a financial incentive to work for the remainder of the 2021 income year.

15. A second option is to not adjust the MFTC threshold retrospectively, as a retrospective adjustment could not act as a work incentive for those who had already made the decision to work. However, the threshold would not be aligned for the remainder of the 2021 income year.

*Legislative amendment and next steps*

16. If Ministers wish to make a change to the MFTC for the 2020-21 income year (the retrospective change), this must be made via an amendment to primary legislation. An omnibus tax bill is scheduled to be introduced and passed through all stages under urgency on 1 December 2020.

17. If Ministers wish to make a prospective change to the MFTC threshold, this could also be included as a legislative amendment in the December 2020 tax bill, or alternatively, an Order in Council could set the MFTC threshold if passed by 1 December 2020.

18. To include these legislative amendments, decisions are needed by Cabinet on 30 November. If Ministers agree, a Cabinet paper needs to be lodged by 26 November with a Regulatory Impact Assessment. Officials will separately provide a draft joint Cabinet paper (including the increases to benefit abatement thresholds) for Ministers to consider.

19. Officials will provide advice to joint Ministers on a potential scope for a work programme to review the Working for Families tax credits in December 2020. [redacted] s 9(2)(f)(iv) [redacted]

*Treasury comment*

20. The Treasury does not consider that this policy decision meets the threshold to be progressed as a Budget pre-commitment. While Treasury acknowledges that it is likely to introduce greater complexity for clients, Treasury does not agree that these adverse effects are sufficient to justify funding this initiative ahead of the Budget process given the tight fiscal environment. s 9(2)(f)(iv) [redacted]

## Recommended action

We recommend that you:

1. **note** that:

- the MFTC is a guaranteed minimum income level set to ensure that low-income eligible families in work are financially better off than remaining on benefit;
- around 3,800 MFTC customers in tax year 2020 who received around $12 million in total;
- the recent and proposed changes to main benefit settings have large consequential impacts on the MFTC threshold, and if the MFTC threshold is not increased, then many low-income families in work may be financially better off to remain on benefit.

Noted Noted Noted

*Prospective decision for 2022 income year*

2. **note** that advice was provided to the Minister for Social Development and Employment on the increases to benefit abatement thresholds from 1 April 2021, forecast to cost $290.568 million over the forecast period.

Noted Noted Noted

<u>Contingent on the benefit abatement thresholds progressing as planned, either:</u>

3. **agree** to increase the MFTC threshold for the 2022 income year to $32,604. This will have a fiscal cost of $77.7 million over the forecast period. (Inland Revenue recommends)

Agreed/Not agreed Agreed/Not agreed Agreed/Not agreed

<u>Or:</u>

4. **agree** to increase the MFTC threshold for the 2022 income year to $30,576. This will have a fiscal cost of $38.25 million over the forecast period. (MSD recommends)

Agreed/Not agreed Agreed/Not agreed Agreed/Not agreed

<u>Or:</u>

5. **agree** to not increase the MFTC threshold for the 2022 income year and it will remain at $27,768. The net fiscal cost arising from increased expenditure on

benefits and the Winter Energy Payment is likely to be small. (Treasury recommends)

Agreed/Not agreed Agreed/Not agreed Agreed/Not agreed

*Retrospective decision for 2021 income year*

6. **note** that:

- Ministers have a decision on whether to make a retrospective change to the MFTC threshold for the 2021 income year to reflect the $25 per week increase to main benefit rates from 1 April 2020;
- if Ministers agree to a retrospective change, Inland Revenue could start to pay the higher MFTC payments to customers from late December 2020;
- the retrospective change would be paid as a lump-sum to existing MFTC customers and that this may affect entitlements to financial assistance from MSD such as Temporary Additional Support;

Noted Noted Noted

7. **note** that a retrospective change of the MFTC threshold for the 2021 income year would increase the total fiscal cost by $4.6 million;

Noted Noted Noted

8. **agree** to increase the MFTC threshold for the 2021 income year only to $29,432; and

Agreed/Not agreed Agreed/Not agreed Agreed/Not agreed

*Funding*

9. **note** that the Treasury does not consider that this policy decision meets the threshold to be progressed as a Budget pre-commitment;

Noted Noted Noted

*Legislative amendments*

| Recommendations | Minister of Revenue |
|---|---|
| **Agree** that the legislative amendments implementing the revised MFTC threshold for both 2020-21 and 2021-22 years to be included in an omnibus tax bill scheduled for introduction in December 2020; | Agreed /<br>Not agreed |
| For a prospective change only, **agree** to either:<br><br>option 1: a legislative amendment in an omnibus tax bill scheduled for introduction in December 2020<br><br>Or<br><br>option 2: by Order in Council | Option 1 /<br>Option 2 |

*Next steps*

10. **note** that if you agree to include legislative amendments to effect the changes to the MFTC threshold, a Cabinet paper will be prepared for you to lodge by 26 November 2020 for the Cabinet meeting on 30 November;

Noted

11. **note** that if a decision is made to increase the MFTC threshold, funding would need to be sought as a Budget 2021 pre-commitment; and

Noted Noted Noted

12. **note** s 9(2)(f)(iv) [redacted]

Noted Noted Noted

s 9(2)(a) [redacted]

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/ /2020

**Hon David Parker**
Minister of Revenue
/ /2020

## Purpose

1. Recent and proposed changes to main benefit settings have implications for the Minimum Family Tax Credit (MFTC). Officials seek decisions from Ministers regarding the MFTC threshold for the 2022 income year (the prospective change) and the 2021 income year (the retrospective change). This report outlines the range of options available to Ministers and the associated trade-offs.

2. If Ministers decide to progress any changes, decisions are needed by Cabinet by 30 November for amendments to be included in an omnibus tax bill scheduled to be introduced on 1 December 2020. Advice is provided on the legislative options available.

3. s 9(2)(f)(iv) [redacted]

## MFTC background

4. The MFTC is one of the Working for Families (WFF) tax credits and is available to low-income families with children. The purpose of the MFTC is to ensure that families in work are financially better off than they would be on a benefit. The effect is that there is a minimum income for families who meet the eligibility criteria.

5. The MFTC is intended to support the "making work pay" objective of the WFF package. While it is available to low-income couples with dependent children, the primary focus of the credit was "to improve the financial incentive for sole parents to be in paid work".[1]

6. The current annual income threshold is $27,768 after tax ($534 per week). Inland Revenue administrative data indicate that around 3,800 families received this credit in tax year 2020; however, we forecast that there will be a decrease to 3,200 families in tax year 2021.[2] Inland Revenue paid nearly $12 million to these families in tax year 2020, with an average payment amount of $3,100 per family. Around 90% of MFTC customers are sole parent families.

7. As part of the introduction of Working for Families from 1 April 2006, Cabinet agreed to adjust the MFTC threshold annually to ensure families did not suffer a reduction in income when moving off benefit into full-time employment (defined as 30 hours a week for couples and 20 hours a week for sole parents). Since then, the MFTC threshold has been adjusted each year by Order in Council to reflect changes to benefit settings.

8. The MFTC threshold is calculated by determining the maximum income level a family could receive if they are working but continue to receive an abated benefit. The calculation uses the couple-rate of main benefit Jobseeker Support, which is higher than the sole parent main benefit rate. This ensures that couples with children are financially better off than on benefit. It also means that sole parents are entitled to a slightly greater amount of MFTC than if we use a sole parent rate of main benefit. Because of the tie with main benefit settings, the MFTC threshold is sensitive to changes in main benefits. It is also dependent on other factors, such as the minimum wage rate, personal taxes and tax credits.

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[1] *Changing Families' Financial Support and Incentives for Working*, IR and MSD, July 2010 citing Cabinet Policy Committee (2004)

[2] Some reasons for the decrease in tax year 2021 could be due to the impacts of Covid-19 on employment, or the increase in main benefit payments and temporary doubling of the Winter Energy Payment from 1 April 2020. The latter changes have made the financial incentives to stay on benefit higher.

*Known issues with the MFTC*

9. The MFTC works by providing a payment so that a family's income reaches exactly the legislated threshold. For example, if a sole parent earns $25,000 of net income[3], then they would receive a payment of $2,768 (on an annual basis). If the sole parent works more and earns $1 more, then their payment is reduced by $1. This is known as a 100% effective marginal tax rate (EMTR).

10. High EMTRs indicate lower financial incentives to work. Because the MFTC has a 100% EMTR, there is no financial incentive to work more hours *while receiving the MFTC*. However, because the MFTC threshold itself is set to be above the benefit income at 20 hours (for a sole parent), there remains a financial incentive to go off benefit at this point.

11. This means that the MFTC provides a strong financial incentive for sole parents on low/minimum wage to work the minimum required hours (20 hours a week). For example, a sole parent with two children (aged three and five years)[4] would gain around $62 a week moving from working[5] on a benefit to working and receiving the MFTC.

12. However, there is little to no financial incentive to work more than 20 hours a week on a low/minimum wage. For example, a sole parent with two children (aged three and five years)[6] would gain around $96 a week moving from 20 hours of work to 40 hours of work a week on the minimum wage, once their housing costs are taken into account. If they are paying for formal childcare, they would be worse off by $152 a week. (However, the incentive would still remain for these families to increase their work hours to at least 20 hours of work per week.)

13. While families are receiving the MFTC they will also not benefit from hourly wage increases (unless their income increases enough so that they are no longer eligible for MFTC). While part-time work may be desirable for many sole parents given their caregiving responsibilities, disincentivising working 40 hours per week for those earning low/minimum wage may impact on sole parents' longer-term labour market trajectories and lifetime earnings.

14. We note that families and individuals make their decisions on whether to work, or to work more or less, for multiple reasons. Financial incentives are just one of the reasons for labour supply decisions.

## Decision for the 2022 MFTC threshold (the prospective change)

15. In its manifesto, the New Zealand Labour Party proposed an increase to main benefit abatement thresholds to $160 per week for main benefit payments, and $250 per week for the second abatement threshold for the Sole Parent Support and Supported Living Payment. MSD officials have provided advice on the impacts of these changes for beneficiary and non-beneficiary recipients [refer to *Implementing the manifesto commitment to increase abatement thresholds* REP/20/11/1045].

16. The total cost of the abatement increases is expected to be $290.568 million over the forecast period (excluding any changes to MFTC). The Minister for Social Development and Employment intends to seek Cabinet agreement on this proposal at the 30 November 2020 meeting.

17. These benefit abatement changes increase the amount someone could receive if they are working while receiving a main benefit. These changes would also have

[3] For simplicity, we assume that the net income in this example is family scheme income, which is the legislated income definition used for Working for Families entitlement.
[4] With other assumptions, such as housing costs and childcare costs.
[5] Working 19 hours a week on benefit, 20 hours a week on the MFTC, while on minimum wage.
[6] With other assumptions, such as housing costs and childcare costs.

flow-on implications for the MFTC. Ministers have options which primarily involve trade-offs on financial work incentives, fiscal costs, and impacts on future reforms. The advantages and disadvantages of each option are outlined in the table below.

| Option | Impact | Advantages | Disadvantages |
|---|---|---|---|
| **Option 1: Increase the MFTC threshold to fully reflect benefit abatement changes.** | The MFTC threshold would increase to $32,604 p.a. (or $627 per week), which would have an ongoing fiscal cost of $18.3 million per annum.[7]<br><br>This full alignment is a 17% increase ($4,836 p.a. or $93 per week) from the current threshold, a large increase relative to previous annual adjustments[8]. | The MFTC threshold remains aligned with its policy intent.<br><br>The expected 3,200 families on MFTC would gain, and an additional 1,700 families would be eligible.<br><br>The average increase is $4,700 per family. | The range over which the MFTC is available is extended, resulting in a larger range of hours worked with a 100% EMTR, further reducing incentives to work greater hours for sole parents on low/minimum wage.<br><br>The 1,700 newly eligible families would also experience a 100% effective marginal tax rate meaning there is less incentive to increase hours of work.<br><br>However, these may not have a significant impact on labour supply decisions in aggregate given that much of this group already face an 100% EMTR.<br><br>Increasing the MFTC this significantly may also make future structural reform of WFF more difficult s 9(2)(f)(iv) [redacted] particularly if there is a desire to avoid people being financially disadvantaged.[9] |
| **Option 2: Adjust the MFTC threshold to account for the recent increase to main benefits and the Annual General Adjustment but not the proposed abatement changes**. | The MFTC threshold would increase to $30,576 p.a. (or $588 per week), which would have an ongoing fiscal cost of $9.0 million per annum.<br><br>This increase is $2,808 p.a. ($54 per week) from the current threshold. | Is fiscally less costly than a full alignment.<br><br>Sole parents would remain financially better off working and receiving MFTC than receiving a benefit.<br><br>s 9(2)(f)(iv) [redacted]<br><br>Increasing the MFTC threshold by a lesser amount now may make any future structural reforms of WFF slightly less costly.<br><br>The expected 3,200 families on MFTC would gain, and an additional 770 families would be eligible. | The MFTC threshold is not fully aligned with its policy intent.<br><br>This means that couples would be theoretically better off working and receiving a main benefit, however, few couples are likely to qualify for a benefit if one person is working 30 hours a week.[10]<br><br>MFTC recipients gain by less than a full adjustment of the MFTC.<br><br>The range over which the MFTC is available is extended, resulting in a larger range of hours worked with a 100% EMTR, reducing incentives to work greater hours for sole parents on low/minimum wage (but not as much as a full adjustment).<br><br>However, these may not have a significant impact on labour supply decisions in aggregate given that much of this group already face an 100% EMTR. |

[7] Note that this increase is more than was paid out in MFTC in tax year 2020.

| Option | Impact | Advantages | Disadvantages |
|---|---|---|---|
| **Option 3: Do not adjust the MFTC threshold**. | The MFTC threshold would remain at $27,768 p.a. (or $534 per week).<br><br>This could have a net fiscal cost arising from the increase to benefit expenditure as families move on to benefit. We are currently calculating what the cost is and will provide that to Ministers. We estimate this is likely to be small. | s 9(2)(f)(iv) [redacted]<br><br>Not increasing the MFTC threshold now may make any future structural reforms of WFF slightly less costly.<br><br>This option also has the lowest fiscal cost, which would allow funding to be directed to other priorities. | The MFTC threshold is no longer aligned with its policy intent and therefore some MFTC families may be financially better off receiving a benefit depending on the number of hours they work.<br><br>As a result, there may be an increase in the number of families receiving a benefit and a consequential fiscal impact, but this cost would be partially offset by the reduction of MFTC (as families would no longer receive the MFTC).<br><br>This change would also result in confusion of when a person was better off on benefit or working and receiving MFTC. This would be very challenging for customers to understand and for staff to communicate. |

[8] This is roughly equivalent to the cumulative increases to the MFTC over the past five years.
[9] This is because any structural changes would need to ensure that families with children would have at least the same net income at 20 hours of work as under current settings.
[10] This is due to the ’30-hour rule’ where a person (or couple) are not eligible for Jobseeker Support if they are working fulltime (defined as 30 hours a week).

## Discussion

18. On balance, Inland Revenue officials recommend that the MFTC threshold increase to maintain alignment with the benefit abatement thresholds as this is consistent with the policy intent when the MFTC was established – that is, to provide a financial incentive to work and move off benefit and on to the MFTC.

19. Arguably, there is also an equity issue in that not fully aligning the MFTC threshold financially disadvantages those families who remain off benefit (relative to those who are on benefit). If benefit settings are intended to reflect a minimum level of income for beneficiaries, then implicitly, the guaranteed minimum income provided to working and off-benefit families (via the MFTC) should be at least the same.

20. There are also flow-on benefits to children in these low-income families whose parents are working and off benefit.

21. However, officials note that there are also trade-offs with fully aligning the MFTC threshold, including exacerbating existing issues with EMTRs and s 9(2)(f)(iv) [redacted]

22. For this reason, MSD officials recommend an alternative option to partially align the MFTC threshold to the new benefit settings to ensure that sole parents are financially better off working and receiving the MFTC, versus remaining on benefit. As it is a smaller increase, it has a lower fiscal cost and a lesser impact on the upcoming WFF review (discussed below) in comparison to a full alignment.

23. In the partial alignment option, for example, a sole parent with two children (aged three and five years)[11] would be $87 a week better working and receiving the MFTC than working and receiving a benefit.

24. The MFTC threshold would not be fully aligned with its policy intent. This means that couples would be theoretically better off working and receiving a main benefit, however, few couples are likely to qualify for a benefit if one person is working 30 hours a week.[12] Couples will still gain from this option.

25. The Treasury does not consider that this policy decision meets the threshold to be progressed as a Budget pre-commitment. While Treasury acknowledges that it is likely to introduce greater complexity for clients, Treasury does not agree that these adverse effects are sufficient to justify funding this initiative ahead of the Budget process given the tight fiscal environment. s 9(2)(f)(iv) [redacted]

*Trade-offs with not increasing the MFTC threshold*

26. If the MFTC threshold is not increased at all, then the purpose of the MFTC becomes moot for some customers. The income that a family would receive off benefit may be less than they could receive if they remain on benefit while working. As an example, a sole parent with two children[13] working 20 hours at $20 per hour would be better off receiving the MFTC from 20 hours to 25 hours of work but could then receive more on a benefit above 25 hours of work. This inconsistency would also make customer experience much more difficult if they need to switch between

[11] With other assumptions, such as housing costs and childcare costs.
[12] This is due to the '30-hour rule' where a person (or couple) are not eligible for Jobseeker Support if they are working fulltime (defined as 30 hours a week).
[13] The sole parent example assumes they have two children ages three and five, living in Auckland and receiving Accommodation Supplement Area 1 payments.

benefit and MFTC when they have a change in hours. It would also be challenging for customers to understand and for staff to communicate.

27. s 9(2)(f)(iv) [redacted]

*MFTC customer experience*

28. MFTC customers are a particularly vulnerable group of customers for Inland Revenue. The majority of customers receive MFTC on a weekly or fortnightly basis throughout the year. In earlier qualitative research, some customers have told Inland Revenue that the payment is a significant source of support as they move off benefit. Based on Inland Revenue's experiences, customers are likely to compare the income they would receive while on benefit, versus the income they receive off benefit.

29. If the MFTC threshold is not fully aligned, then customers may stay on benefit while working rather than exiting the benefit system. They may also have to switch between MFTC and benefit which would be challenging for customers to understand and for staff to communicate.

*Review of Working for Families*

30. s 9(2)(f)(iv) [redacted]

31. s 9(2)(f)(iv) [redacted]

32. s 9(2)(f)(iv) [redacted]

## Decision for the 2021 MFTC threshold (the retrospective change)

33. As part of its response to COVID-19 in March 2020, the previous Government agreed to increase main benefit rates by $25 per week on 1 April 2020 and temporarily doubled the Winter Energy Payment for 2020. This would normally have a flow-on impact to the MFTC threshold. Due to the urgent pace at which the benefit payments were changed, the decision to change the MFTC threshold was not considered.

34. Ministers now have an option to retrospectively adjust the MFTC threshold. The choices are[14]:

    34.1 **Retrospectively adjust for the $25 main benefit increase**: The adjusted threshold would be $29,432, effective from 1 April 2020. Under this option all MFTC recipients in the 2020-21 income year would gain by

[14] There is also an option to increase the rate to account for the temporary doubling of WEP, but on balance, officials do not recommend aligning the threshold with this rate given it is temporary.

$32 for each week they received the MFTC, an average gain of $1,280 per family. Additionally, we expect approximately 400 families would become newly eligible for the MFTC.

34.2 **Do not retrospectively adjust the MFTC threshold**: The threshold would remain at the current legislated rate of $27,768. However, any prospective full alignment to MFTC will need to take into account the permanent changes to benefit settings from this income year.

35. If Ministers decide to adjust the MFTC threshold for the 2020-2021 income year, Inland Revenue could begin paying customers the higher MFTC payment from late December 2020. This would ensure there is a financial incentive to move off benefit for the remainder of the 2021 income year.

36. For the April-November 2020 months, MFTC recipients would receive this retrospective increase as a lump sum when completing their square-up at the end of the tax-year. It is worth noting that this retrospective payment cannot retrospectively provide an incentive to work more and move off benefit. However, as noted earlier, it would provide additional income support for this group[15].

37. While retrospective changes are not ideal, there may be a case for doing so in this instance because the decision was not included as part of the normal decision-making process for the benefit rate increases due to the urgency around COVID-19.

## Financial implications

38. Under normal circumstances, when a policy change impacts the MFTC, the fiscal costs for MFTC are funded as part of that policy change. Additional funding was not provided when main benefits and the Winter Energy Payment were increased in April 2020 due to the urgency with which the changes were progressed. A retrospective adjustment to the MFTC threshold will therefore also incur a fiscal cost.

39. If Ministers agree to **increase the MFTC threshold to fully reflect benefit abatement changes**,

39.1 this has a fiscal cost of <u>$77.7 million over the forecast period</u> ($18.3 million p.a.). Of this, $4.6 million p.a. is associated with the main benefit increase agreed in March 2020, while $13.7 million p.a. is associated with the abatement changes.

39.2 If Ministers also agree to **retrospectively adjust for the $25 main benefit increase for 2020-21** this will increase the overall fiscal cost by $4.6 million to <u>$82.3 million over the forecast period</u>.

40. If Ministers agree to **increase the MFTC threshold to reflect increases to main benefits but not abatement changes**,

40.1 this has a fiscal cost of <u>$38.25 million over the forecast period</u> ($9 million p.a.).

40.2 If Ministers also agree to **retrospectively adjust for the $25 main benefit increase for 2020-21** this will increase the overall fiscal cost by $4.6 million to <u>$42.85 million over the forecast period</u>.

[15] MFTC is chargeable income for some types of financial assistance paid under the Social Security Act 2018, e.g. Temporary Additional Support. A retrospective increase in MFTC may lead to debts being created for some people. It is also assessable income for Public Housing purposes, for assessing eligibility and calculating the rate of Income Related Rent.

41. If a decision to increase the MFTC threshold is progressed, funding would need to be sought via a Budget 2021 pre-commitment.

## Legislation

42. If Ministers wish to make a change to the MFTC for the 2020-21 income year (the retrospective change), this must be made via an amendment to primary legislation. An omnibus tax bill is scheduled to be introduced and passed through all stages under urgency on 1 December 2020. Decisions will need to be taken by Cabinet by 30 November to include these amendments in this bill.

43. If Ministers wish to make a prospective change to the MFTC threshold, this could also be included as a legislative amendment in the December 2020 tax bill. We recommend both changes are included in the December 2020 tax bill if both changes are agreed.

44. Alternatively, if Ministers agree to just a prospective change, an Order in Council could set the MFTC threshold if passed by 1 December. Cabinet decisions are required by 30 November for this option as well.

s 9(2)(f)(iv)

[redacted]

## Next steps

49. A draft Cabinet paper has been provided for Ministers to consider. This paper discusses the proposal to increase benefit abatement thresholds with a placeholder for the consequential impacts to the MFTC threshold.

50. At Ministers' direction, a Cabinet paper with the Regulatory Impact Assessment will be lodged by 26 November to be discussed at the 30 November 2020 Cabinet meeting.

2.

Inland Revenue
Te Tari Taake

POLICY AND STRATEGY

TE TAI ŌHANGA
THE TREASURY

# **Joint Report:** Further decisions on a new Business Support Grant

| | | | |
|---|---|---|---|
| **Date:** | Friday 27 November 2020 | **Report No:** | T2020/3583<br>IR2020/488 |
| | | **File Number:** | SH-1-6-1-3-3 |

## Action Sought

| | Action Sought | Deadline |
|---|---|---|
| Minister of Finance (Hon Grant Robertson) | **Respond** to the recommendations in this report. | Tuesday 1 December 2020 |
| Minister of Revenue (Hon David Parker) | **Refer** the report to the Minister for Economic Development. | |

## Contact for Telephone Discussion (if required)

| Name | Position | Telephone | 1st Contact |
|---|---|---|---|
| Angus Hodgson | Senior Analyst, COVID Policy, Treasury | s 9(2)(a) | ✓ |
| Alastair Cameron | Manager, COVID Policy, Treasury | N//A | |
| Richard Braae | Principal Policy Advisor, Inland Revenue | N/A | |
| Emma Grigg | Tax Policy Director, Inland Revenue | N/A | |

## Actions for the Minister's Office Staff (if required)

**Return** the signed report to Treasury.

**Refer** the report to the Minister for Economic and Regional Development.

| | |
|---|---|
| Note any feedback on the quality of the report | |

**Enclosure**: No

# **Joint Report:** Further decisions on a new Business Support Grant

## Executive Summary

Cabinet will consider the framework for economic responses to any further community resurgence COVID-19 by the end of this year. As part of this, the Minister of Finance has requested further information to support the design of a new grant scheme to operate alongside the wage subsidy, addressing firms most affected by transition costs and public health restrictions at Alert Level 2 and above. The new grant can be used for any purpose. We are referring to the scheme as a Business Support Grant (BSG), however alternative names such as the Resurgence Support Grant may be more appropriate.

The objective of the BSG is to target firms that experience a disruption in revenue as a result of public health restrictions. These firms, like hospitality and events businesses that rely on people gathering, need to adjust their operations to public health restrictions, have unavoidable fixed costs, and disrupted revenue. The proposal in this paper targets those businesses that will be impacted, albeit less generously to reflect the smaller economic impacts of Alert Level 2.

The outstanding design choices in the table below reflect feedback from the Minister of Finance, and further decisions sought through this report.

| **Options** | **Recommended Design** | **Considerations** |
|---|---|---|
| Agreed by Minister of Finance | | |
| Payment frequency: a one-off payment to assist firms with transition and fixed costs, or multiple payments | One-off payment on escalation from AL1 | - |
| Firm size limits: options to limit payments to larger firms | Available to all firms but payment capped at 50 FTE rate | - |
| Regional targeting: regional targeting challenging given boundary issues, but may be beneficial for very localised outbreaks | Option available depending on outbreak | - |
| Design decision required | | |
| Trigger: Need to balance the need for support with fiscal costs during short resurgence events. | Minimum period of 7 days at AL2 or above as the trigger for activating the scheme | Judgement about the materiality of costs incurred for shorter escalations. |
| Eligibility: Whether test should be prospective or retrospective | A retrospective model, firms declare required drop in revenue over the preceding two weeks based on actuals | Tightens verification and integrity |

| Options | Recommended Design | Considerations |
|---|---|---|
| Eligibility: revenue drop test would target affected firms and sectors. | 30% revenue drop test | Choices to further manage costs and integrity risks. Higher 40% or lower 20% revenue drop test |
| Payment structure: choices around the level and form (whether to base on FTE or include a per-firm component) | Per-firm ($1,500) and per-FTE component ($400) | Options include a higher base rate. This would favour smaller firms and sole traders |
| Declaration: Such a requirement will assist the link with firm level impacts and shape firm behaviour | Firms are required to declare their drop in revenue is a result of specific COVID-19 measures and circumstances, and require firms to hold records proving the link. | Needs to align with the wage subsidy approach |
| Sectoral targeting: explicit targeting by sectors very challenging and creates boundary issues | No explicit sector targeting, as revenue drop will implicitly target affected sectors. Integrity measures above will strengthen this link. | Further work required to operationalise a targeting regime. |
| Organisation eligibility: option to design bespoke settings or build of existing wage subsidy settings. | Aligned with wage subsidy scheme | Includes charities, not-for-profits, pre-revenue firms. |

## Communications

Early announcements of the establishment of the BSG, as part of broader public communications on the suite of economic support measures in resurgence events, will provide business certainty and support firms to build resilience between resurgences.

We recommend that the BSG be announced early, setting out the broad parameters of the scheme. This would include confirmation of the revenue drop test, the ability for firms to use the funds for any purpose, the triggers for activating the scheme, the role of Inland Revenue, the retrospective test approach and the need for firms to demonstrate an impact on revenue from COVID-19.

It will also be important to position the BSG as part of a suite of support measures, to manage the expectations of firms. For example, the BSG is not designed to cover all revenue impacts. It is designed to provide one-off support at the outset of a resurgence, supporting firms as they adjust their operations to meet public health restrictions. In this sense, it recognises the public good that businesses provide through taking disease prevention steps to continue operating. Where further support is needed, firms can access the SBCS, Business Finance Guarantee Scheme (BFGS), lending from their bank, and in higher ALs the wage subsidy.

The BSG will be the main "new" product of the economic support package. It will be necessary to set out the rationale for why the BSG is being established now and not earlier. The core argument is that we are better at responding to resurgences and have developed our thinking. This includes supporting greater economic activity under longer periods of lower ALs. We recognise that there is an impact on businesses at this level and if the wage subsidy is not available, then an additional and smaller grant will assist businesses to adjust. We will provide key messages next week after you have decided the design parameters.

## Recommended Action

We recommend that you:

a **note** that Treasury has provided a draft *Economic response to future resurgences of COVID-19* Cabinet paper to the Minister of Finance, which will cover the Business Support Grant Scheme subject to decisions taken through this report.

b **agree** that a minimum period of 7 days at Alert Level 2 or above will be required to activate the scheme.

| | |
|---|---|
| *Agree/disagree*<br>*Minister of Finance* | *Agree/disagree*<br>*Minister of Revenue* |

c **agree** that firms must demonstrate a revenue drop of more than 30% over any 14 day period after an escalation from Alert Level 1 to be eligible.

| | |
|---|---|
| *Agree/disagree*<br>*Minister of Finance* | *Agree/disagree*<br>*Minister of Revenue* |

d **agree** that firms must demonstrate a drop in revenue over that 14 day period through declaring an actual 30% drop in revenue against that period, and that firms will be required to hold information to verify this if required by Inland Revenue.

| | |
|---|---|
| *Agree/disagree*<br>*Minister of Finance* | *Agree/disagree*<br>*Minister of Revenue* |

e **agree** that the payment will be calculated based on a $1,500 per-firm payment and a $400 per-FTE payment, capped at 50 FTEs.

| | |
|---|---|
| *Agree/disagree* | *Agree/disagree* |
| *Minister of Finance* | *Minister of Revenue* |

f **agree** that firms be required to declare their drop in revenue as a result of a COVID-19 Alert Level escalation, and that firms will be required to hold information to verify this if required by Inland Revenue.

| | |
|---|---|
| *Agree/disagree* | *Agree/disagree* |
| *Minister of Finance* | *Minister of Revenue* |

g **agree** that organisational eligibility criteria will be aligned to the Wage Subsidy Scheme.

| | |
|---|---|
| *Agree/disagree* | *Agree/disagree* |
| *Minister of Finance* | *Minister of Revenue* |

h **note** that an additional grant within an escalation period would complicate the one-off nature of the scheme, add fiscal cost per escalation, but may be desirable under a protracted period above Alert Level 1.

i **note** that, if you support subsequent grants as a design feature, officials will provide advice following Cabinet decisions on a framework for subsequent grants.

j **indicate** whether the scheme should be enabling of subsequent grants through an additional round of applications within one protracted period above Alert Level 1.

| | |
|---|---|
| *Yes/no* | *Yes/no* |
| *Minister of Finance* | *Minister of Revenue* |

k **agree** that amendments to the Tax Administration Act 1994 be done by way of a standalone Bill passed under urgency when the House resumes in February 2021.

| | |
|---|---|
| *Agree/disagree* | *Agree/disagree* |
| *Minister of Finance* | *Minister of Revenue* |

l **note** that the BSG scheme is expected to cost $350 million in operating funding per escalation above Alert Level 1, based on a 30% revenue drop test and an estimated 150,000 firms qualifying for the Business Support Grant.

m **note** that Inland Revenue will require an estimated $9 million in new operating funding to build and deliver the Business Support Grant in 2021/22 to 2024/25.

n **note** that this funding assumes the scheme will be in place for two years, with two further years for integrity and compliance work after the scheme has ended.

o **note** that Treasury recommends the scheme's administrative funding be drawn from the CRRF with funding sought through the Cabinet paper.

p **note** that Inland Revenue will redeploy administrative capability to work on the Business Support Grant as required and, to provide administrative flexibility, the Cabinet paper will propose delegating to Joint Ministers the authority to redistribute this $9 million across years as necessary.

q **note** that the Minister of Finance has agreed to officials holding targeted stakeholder engagement on key parameters of the Business Support Grant.

r **agree** that the targeted stakeholder engagement will include:

a. The trigger design, including the proposed 14 day delay before applications open;

b. The mechanics of the 30% revenue drop test, specifically the requirement that firms declare an actual drop in revenue over the preceding 14 days (as opposed to forecast);

c. The workability of the proposed requirements to include a more specific declaration that an applicant has been impacted by the COVID-19 public health restrictions;

d. Per-firm ($1,500) and per-FTE component ($400) payment rates; and

e. Alignment and interaction with the other support schemes (including the wage subsidy).

| | |
|---|---|
| *Agree/disagree* | *Agree/disagree* |
| *Minister of Finance* | *Minister of Revenue* |

s **refer** to the Minister of Economic and Regional Development.

| | |
|---|---|
| *Refer/Not referred* | *Refer/Not referred* |
| *Minister of Finance* | *Minister of Revenue* |

| | |
|---|---|
| Alastair Cameron | Emma Grigg |
| **Manager, COVID Policy, Treasury** | **Tax Policy Director, Inland Revenue** |

| | |
|---|---|
| Hon Grant Robertson | Hon David Parker |
| **Minister of Finance** | **Minister of Revenue** |

# **Joint Report:** Further decisions on a new Business Support Grant

## Purpose of Report

1. This report seeks detailed decisions from the Minister of Finance and the Minister of Revenue on the key parameters of a new Business Support Grant (BSG). This includes the level of the revenue drop a firm must experience to become eligible, the rate on which payments will be calculated, and the triggers to activate the scheme. It also provides detailed recommendations to assist Inland Revenue with implementing the scheme, including the drafting of legislation to be passed in February 2021.

## Background

2. The Government's public health strategy and Alert Level (AL) framework is complemented by an economic strategy that minimises the economic cost of public health restrictions and allows New Zealand to take advantage of the opportunities of a protracted period of minimal community transmission.

3. Public health restrictions deliver short and severe economic shocks based on the closeness of physical contact in any given business. This impact delivers a public good – disease prevention. This means there is an equity and distributional case for broad-based support for firms affected during public health restrictions.

4. A resilient strategy relies on the Government responding quickly through elevated public health restrictions. This has been delivered through a wage subsidy scheme available from AL3 that supports labour market retention and additional interventions, such as support for childcare, rents and tenancies. There is scope for a new grant scheme for costs not covered by the wage subsidy, or costs experienced at AL2. This would provide cash flow support to firms with adjustment costs at the beginning of an outbreak, and recognise that firms have unavoidable fixed costs that may not be met due to disrupted revenue.

5. Altogether, we recommend a one-off lump sum payment to aid companies to adjust to an escalation, recognising their contribution to public good through disease prevention. To target the most affected firms, we recommend firms be eligible when they have experienced a 30% drop in revenue two weeks after an escalation from AL1. The rationale for this is to ensure the scheme is well-targeted and maintains integrity. Firms would not be required to use the funding for specific purposes, supporting firms to build resilience between resurgences.

6. The payment will be calculated based on a per-firm payment and a per-FTE payment, weighting the contributions in favour of smaller firms with high fixed costs. These firms tend to be less resilient to changes in their operations. We recommend a payment structure of $1,500 per eligible firm, plus $400 per FTE (capped at 50 FTEs) as a proxy for firm size.

## Decisions sought

7. The key parameters for a new Business Support Grant relate to the level of revenue drop required for firms to be eligible, the triggers to activate the scheme in an escalation event, and the rate of payment to calculate the support granted to a firm.

8. In previous advice, the Minister of Finance agreed to a number of key parameters and sought further advice to inform decisions on others. The parameters that have been agreed are:

a. The grant will be provided as a one-off payment when there is an escalation from AL1;

b. Payment calculated on a per-firm and per-FTE component (like the Small Business Cashflow Scheme (SBCS))

c. Firms of all sizes will be eligible, but the per-FTE component will be capped at 50 FTEs; and

d. The scheme will be available nationally, even during regional AL escalations, however regional targeting remains an option depending on the outbreak.

9. The Minister of Finance sought further information on the threshold for the revenue drop test, noting a concern that 20% may provide support too broadly, and the potential to strengthen the declaration process to more closely link a drop in revenue to impacts arising from public health restrictions. This report responds to that request, and recommends a higher threshold of 30%, a requirement for applicants to declare that their drop in revenue is a result of COVID-19 and a requirement for businesses to hold records proving the causal link between COVID-19 and the revenue drop.

10. In addition, we are seeking decisions on other details to assist in the design and implementation of the scheme, as well as agreement that the Cabinet paper will delegate detailed design decisions to joint Ministers (the Minister of Finance, Minister of Revenue, and Minister for Economic Development). The additional decisions sought through this paper include the triggers for activating the scheme, the rates for the per-firm and per-FTE payments, eligible organisations and the potential for subsequent payments.

***The triggers to activate the scheme should be clear, to provide business certainty and support decisions that are durable to public health developments.***

11. The Minister of Finance has agreed that the scheme be limited to a one-off payment at an initial escalation from AL1 to AL2 or above. This reflects the transitional costs to adjust operations for an escalation.

12. A minimum public health restriction period should be established as a trigger for opening applications. This will align with proposed settings for the wage subsidy scheme and ensure that payments made to cover a portion of firms' weekly fixed costs are not provided in very short precautionary escalations (say 2-3 days). We recommend Cabinet agree in-principle to establishing a minimum period of 7 days at AL2 or above as the trigger for activating the scheme, to align with the wage subsidy. However the period a firm must demonstrate its drop in revenue should be across 14 days to provide sufficient information to demonstrate a revenue drop. We also recommend Cabinet delegate Joint Ministers to confirm the exact period following further advice and consultation with stakeholders.

13. We recommend that applications be time-limited for one month after the first day of de-escalation to AL1. This allows sufficient time for a firm to gather information on its revenue drop to submit an application.

***The revenue decline test can be prospective or retrospective, this choice involves trade-offs between speed of payment and integrity.***

14. A prospective revenue decline test would mean firms are paid in anticipation of a revenue decline, while a retrospective test would mean firms are paid after experiencing a revenue decline. We recommend the test be applied based on actual revenue drop to improve integrity and align to proposed changes to the SBCS.

15. While applications based on forecast revenue drops have the advantage of providing firms with immediate cash-flow support, there is a greater reliance on the honesty of firms and a higher possibility of payments going to firms that do not need them. This reduces the scheme's integrity and cost effectiveness. Experience with the wage subsidy shows that firms are often confused if they have received a grant based on a genuinely anticipated revenue fall which then does not eventuate.

16. Under a purely retrospective model, applications for the grant would open two weeks after the AL escalation. While this delays applications for two weeks, during which some otherwise viable firms may not survive, this could be mitigated by pre-announcing the policy to signal to firms to try to hold sufficient cash on hand for an initial two-week period at AL2. In addition, Inland Revenue is able to issue payments promptly after an application is received, and one instance of contact will be required between applicant and Inland Revenue.

17. MBIE data indicates approximately 70% of businesses have cash reserves that would allow them to operate for several weeks without support. Approximately 20% of businesses state that they have no reserves. A retrospective test would assist in targeting the payment to viable firms that have experienced a decline in revenue arising from COVID-19, reducing the need for more detailed declaration tests and increasing the integrity of the scheme, however some firms may not hold sufficient reserves to wait 14 days to apply. For this reason, we recommend the scheme be activated when there is an escalation of at least 7 days, with applications based on a 14 days to demonstrate revenue loss. Inland Revenue is generally able to process and make payments within 24 hours of an application.

18. Communicating the scheme in advance of its establishment will allow firms with low cash reserves or access to bridging finance to build resilience, knowing that the application process will require a two week period to demonstrate their revenue impact.

**The choice of revenue drop test threshold determines who receives the grant, and, on balance, we recommend a revenue drop level of 30%.**

19. The Minister of Finance has indicated preference for a relatively strong revenue drop test serving as the targeting mechanism for this scheme. A revenue drop test is likely to identify the firms most in need of economic support due to public health restrictions. It will both target support at those sectors and regions that are, on aggregate, most affected by higher ALs, while also ensuring firms in any sector or region that is affected are eligible. For example, while food, accommodation, and recreation services were the largest recipients of the WSR in August, more than 70% of the scheme's expenditure was on other sectors such as construction.

20. We previously recommended a revenue drop test of 20%. However, based on your feedback, we have presented two choices of revenue test – 30% or 40%. We consider any threshold higher than 30% to be inconsistent with the operational impacts felt by firms at AL2 (too few firms will receive support), and any lower would risk being insufficiently targeted (too many firms will receive support). On balance, we recommend 30%.

21. A revenue drop test of 40% would reduce the fiscal impact and/or allow a more generous grant. However, this threshold may not be appropriate to support firms particularly affected by periods at AL2. We estimate 110,000 to 120,000 firms would satisfy a 40% revenue drop during a modelled resurgence event requiring nationwide escalation to AL2.

22. Alternatively, a revenue drop test of 30% would capture more firms and may better reflect pressures experienced at AL2. We estimate 130,000 to 150,000 firms would satisfy a 30% revenue drop during a modelled resurgence event requiring nationwide escalation to AL2. This would achieve a greater breadth of support while further targeting the most affected firms.

23. We recommend that the revenue drop test apply only to revenues generated by the applicant business. For example, funds received from the wage subsidy or the SBCS would not be counted in the test. This assists firms in applying based on the actual impact of a resurgence.

24. Some firms will have higher costs at AL2. We have considered whether we allow firms to demonstrate eligibility based on cost increases alongside revenue drops. This however would shift the test away from revenue to net revenue which is likely to be more complex to communicate and assess. We therefore recommend staying with a revenue drop test. An applicant could acknowledge a cost impact through the declaration process, however this would not be enforceable and would, therefore, serve a signalling purpose only (discussed further below).

25. We recommend the Cabinet paper seek agreement to the high-level revenue drop threshold (30%) and a delegation for Joint Ministers to design the more technical aspects of the test, including the length of the test period, the point of comparison, and the definition of revenue. This will allow for appropriate alignment between the various revenue drops in different schemes, and for more substantive stakeholder engagement on the design.

**The payment rate can be weighted towards smaller firms by increasing the base payment per-firm. On balance, we recommend a base payment of $1,500 plus $400 per FTE.**

26. Indicative options for the payment amount are set out below. The choice of payment level is a sliding scale, and the benchmarks set out below can be scaled.

***Table 1: Indicative impacts for different payment amount settings[1]***

| | | Sole traders | 1 to 5 | 6 to 9 | 10 to 19 | 20 to 99 |
|---|---|---|---|---|---|---|
| **Weekly Fixed Costs ($000s)** | | 2.9 | 4.1 | 7.5 | 13.5 | 65.2 |
| **Payment amount** | | **Proportion of fixed costs covered by grant** | | | | |
| Base | per FTE | Sole traders | 1 to 5 | 6 to 9 | 10 to 19 | 20 to 99 |
| $1,000 | $600 | 34% | 59% | 67% | 62% | 35% |
| $1,500 | $400 | 51% | 59% | 56% | 48% | 25% |
| $2,000 | $200 | 68% | 60% | 45% | 33% | 14% |

[1] Cost structures for firms are taken from the Annual Enterprises Survey. Fixed costs include interest payments, rent, insurance, rates, depreciation, ACC, superannuation, subcontractors, losses from trading assets, bad debts, royalties, and donations.

27. All of the options presented above have the same indicative fiscal costs. These are dependent on the threshold for the revenue drop and the likely firms impacted during an escalation from AL1 to Al2 or from AL1 to AL3. The indicative fiscal cost would be $340-380 million with a 30% revenue drop during an escalation from AL1 to AL2, or $450-500 million during an escalation from AL1 to AL3. If the threshold were 40%, we estimate the indicative fiscal costs to be $270-290 million in an escalation to AL2 and $340-380 million in an escalation to AL3.

28. Depending on your preferred size of the total fiscal impact of the scheme, these options can be scaled up or down. We recommend a significant grant to improve the credibility of the support, and thereby the confidence signal to firms. A larger one-off fiscal support package may also reduce the chances of immediate calls for further supports, which risk increasing the total fiscal costs of the scheme over time (refer to discussion about review periods and subsequent payments below).

29. Choices between these options represent a choice on the distribution of support across different firm sizes. Fixed costs tend to make up a greater proportion of small firms' total costs, and smaller firms are likely to have less resilient balance sheets. Structuring the payments to direct proportionally more support towards smaller firms, by providing a relatively larger base payment, is appropriate.

30. We note sole traders present a greater integrity risk, and are cautious against over-weighting payments towards this group.

31. There is no ideal level of payment to firms. Even with the number of FTEs proxying firm size, the sufficiency of any payment amount in covering a firm's non-wage and transition costs at higher Alert Levels will vary.

***The declaration requirements for applicants can strengthen the connection to impacts from COVID-19, however it is not possible to achieve perfect alignment. We recommend firms be required to declare their drop in revenue is a result of COVID-19 measures and circumstances, and require firms to hold records proving the link.***

32. The Minister of Finance has signalled that the declaration requirements could include more direction to applicants that they need to have been impacted by the shift from AL1 to AL2 or above in order to be eligible for the grant.

33. The agreements in previous schemes including the wage subsidy and the SBCS scheme have also included high-level requirement that a business declare that they have been impacted by COVID-19, or that their revenue drop is related to COVID-19. There is an opportunity to be more prescriptive in the declaration, supported by other requirements on applications.

34. Being more prescriptive and selecting aspects of the impact of COVID-19 that can be evidenced (e.g. a firm could prove that they had experienced the impact, and keep a record of that evidence), would marginally help improve enforceability of the eligibility criteria through later audit processes. s 9(2)(k) [redacted] A more prescriptive application process also risks considerably increasing call volumes to Inland Revenue, as well as generating uncertainty for businesses who may seek advice before applying resulting in increased compliance costs.

35. While it may be possible to require firms to declare their impact is a result of public health restrictions (e.g. gathering sizes leading to cancellations, physical distancing requirements, cleaning and the provision of PPE, and other restrictions), it is not suited to a test based on a drop in revenue. For instance, a requirement to wear (and therefore procure) PPE is an increased cost on a business, not a reduction in revenue. It would also be difficult to check compliance through an auditing process.

36. Instead, we recommend a well-designed application process that includes a retrospective test to demonstrate an actual decline in revenue over a 14 day period, supported by a requirement for firms to declare that their result is as a consequence of COVID-19 measures and that they hold records to demonstrate this as part of the application. These approaches, combined with a 30% revenue drop level, will assist in limiting the support provided to those firms that demonstrate an actual drop in revenue during an escalation event. This could be complemented by clear communications about the intent of the BSG as a support for firms transitioning to meet public health requirements.

37. We recommend that Cabinet agree in-principle to the direction of travel in the Cabinet paper (i.e. that retrospective tests combined with clear declaration requirements), and delegate further decisions to Joint Ministers to finalise, and update as needed, the specifics of the agreement. This will allow officials time to refine the criteria and consult stakeholders.

***Existing integrity measures at Inland Revenue will strengthen the integrity of this scheme.***

38. Inland Revenue's standard approach, as applied to tax products, would strengthen the integrity of the scheme. For example, its existing information on taxpayers could result in some applicants that should not receive the grant being stopped pre-payment or, if necessary, trigger post-payment action. These checks would occur when confirming that an applicant is in business and the number of FTEs listed in a company. The threat of audit will also act as a behavioural incentive to stop some applicants from seeking the funding.

39. Further, we understand that work is occurring through improvements to the wage subsidy scheme to implement a test that confirms when a business has been affected by an escalation in ALs. The wage subsidy and BSG should be aligned on this policy as far as possible, meaning this work may result in changes to the BSG in the future.

***Eligible organisation types***

40. We recommend that the eligibility of state sector organisations and of different organisational types (such as charities, and not-for-profit entities) to apply for the BSG be aligned with the settings of the wage subsidy scheme. As part of development of the SBCS, officials identified two broad types of organisations for which changes were necessary to give effect to this policy objective. We recommend the same changes be adopted for the BSG.

41. As part of the eligibility criteria, the **business duration** for firms should only be eligible for the BSG if they have been in business for at least 6 months. This aligns to the proposed changes to the SBCS that will soon be put before Cabinet. This is an integrity measure and it limits the fiscal risk around setting up a business to apply for the grant.

42. **Charities and not-for-profit entities** should be eligible for the BSG scheme so long as they meet the other eligibility criteria for the scheme. One issue is that it may be difficult for charities and not-for-profit entities to meet the 'viable, ongoing business' test. In order to resolve this issue, we recommend that charities and not-profits be asked to confirm that they are a 'viable, ongoing organisation' rather than a 'viable, ongoing business.' This reflects the general principle that recipients of the BSG should be acting in a manner that is consistent with the ongoing operation of the entity.

43. **Pre-revenue firms**, such as start-ups, are eligible for the wage subsidy scheme. They do not need to demonstrate a decline in revenue to be eligible for the wage subsidy scheme, but they must demonstrate that their capital-raising activity has been affected by the pandemic. We recommend that these conditions carry across to the BSG. Pre-revenue firms will need to have been in business for at least six months. As with charities and not-for-profit entities, pre-revenue firms may struggle to meet the 'viable, ongoing business' test. Officials will monitor the situation for pre-revenue firms, and may seek further changes to the test if it prevents pre-revenue firms from accessing the BSG.

44. The rules for **State sector entities** should be aligned with the settings for the WSS. For the wage subsidy, Sate Sector Organisations (SSOs) (including State Owned Enterprises) can be granted an exemption to apply for the scheme. This does not automatically grant access to the wage subsidy for the relevant SSOs as MSD has decision-making rights on whether to approve the application. We would expect that existing exemptions will carry through to the BSG.

***Subsequent application rounds within one escalation period.***

45. The BSG should be provided as a one-off grant at the outset of a resurgence to support firms with fixed costs when transitioning from AL1. However, if the Government intends to provide a second round of BSG funding under protracted public health restrictions above Alert Level 1 then a decision is required through the Cabinet paper to accommodate for the setting.

46. The rationale for a second payment during an escalation period would be to provide additional assistance when an AL2 period occurs for a significantly longer period than initially expected. This is an unlikely scenario given an extended resurgence period may warrant an escalation to AL3 which would enable firms to access the wage subsidy. Firms can also access other supports such as the SBCS, BFGS and lending support from banks. For this reason, officials are undecided as to whether a subsequent application round is necessary.

47. There is an option for Ministers to direct a second round of payments to be provided to the initial recipients on the same terms, without a second application (i.e. money is pushed out to recipients without requirements). This would likely increase the amount going to firms that no longer require the support and would increase integrity risk. If there were integrity concerns about the first payment, it would be more difficult to reclaim money. Given this, if Ministers want the ability to provide a further round of payment during protracted Alert Level periods, then officials recommend a second round of applications would be opened requiring businesses to re-declare their eligibility for a subsequent payment.

## Operational implications

48. **Legislation:** There will be legislative amendments to the Tax Administration Act 1994 to allow Inland Revenue to operate the BSG. The legislative amendments could be done by way of a standalone tax Bill passed under urgency when the House resumes sitting in February 2021 (in which case the BSG could be available in late February). Inland Revenue recommends this option – the longer the BSG is delayed, the more likely an ad hoc alternative scheme would be required in the event of a resurgence before the BSG is operational. Alternatively, the amendments could be added as a Supplementary Order Paper to the tax Bill currently before the House that will be passed by 31 March 2021 (in which case the BSG could be available in April).

49. **Tax treatment:** Businesses should not be subject to income tax on the grant they receive, but they should not be able to claim deductions for expenditure funded by the grant. This is consistent with the standard tax treatment of government grants. GST registered businesses should pay GST on the grant, with businesses able to claim input tax deductions for the relevant expenditure. This is consistent with the standard GST treatment of government grants.

50. This will differ from the GST treatment of the wage subsidy. We consider the difference is justified because the wage subsidy is required to be passed on to employees, and employee salary and wages are not subject to GST.

51. **Overlapping supports:** The Cabinet paper confirms, for avoidance of doubt, that firms should receive the BSG alongside other forms of support such as the wage subsidy and SBCS.

52. **Resourcing**: Resourcing this scheme is estimated to be similar to that for the SBCS with respect to system build and administration of payments, integrity and recoveries (though without debt management processes). Unlike the SBCS, this scheme would be activated occasionally.

53. **Implementation agency:** Inland Revenue will administer the scheme, alongside its existing responsibilities for the SBCS. Depending on the complementarity of the revised wage subsidy scheme, Inland Revenue may be suited to administering all three schemes. Further advice will be provided.

## Financial implications

54. The proposed package of resurgence measures, including the BSG, would be implemented only in the event of a future COVID resurgence. The fiscal cost of this depends directly on the number and duration of future resurgences and changes to Alert Levels. Given the uncertainty around this, the costs may therefore be higher or lower than estimated.

55. The BSG scheme would be paid for each escalation above AL1. Multiple resurgence events would trigger additional payments of the grant and multiply the fiscal cost. Remaining at higher ALs for longer durations would limit permitted economic activity, increasing expected demand for the WSS.

56. The table below shows the indicative combined fiscal cost of the BSG and WSS in different scenarios:

| **Scenario** | ***BSG (indicative)*** | ***Wage subsidy*** | **Total fiscal cost** |
|---|---|---|---|
| **AL2 nationally for four weeks** | *$350 million* | *N/A* | **$350 million** |
| **Auckland-style outbreak**[2] | *$400 million* | *$520 million* | **$920 million** |
| **AL3 nationally for 2 weeks, AL2 for 6 weeks** | *$450-500 million* | *$960 million* | **$1,410-1,460 million** |

57. While there is considerable uncertainty around the final cost, we consider there to be sufficient balance in the COVID-19 Response and Recovery Fund (CRRF) to fund the proposed package through multiple resurgence events.

[2] Auckland at AL3 for 2 weeks followed by AL2 for 6 weeks. The remainder of NZ is at AL2 for a total of 6 weeks.

58. Cabinet approval of the required appropriations will be sought when it is clear that the BSG is likely to be activated.

***Administration funding***

59. While Inland Revenue is able to fund the cost of operationalising and establishing administrative capacity for the scheme for 2020/21, an estimated $9 million in new operating funding is required for 2021/22 to 2024/25. We recommend this is drawn from the CRRF.

60. This funding assumes that the scheme will be in place for two years, and requires a further two years of funding for integrity and compliance work after the scheme has ended.

61. Inland Revenue has noted that administrative capacity will be redeployed to work on the BSG as required. To provide for administrative flexibility, we propose delegating to Joint Ministers the authority to redistribute this $9 million across years as necessary.

## Next steps

62. Treasury has provided a draft Cabinet paper for initial consideration and feedback from the Minister of Finance. This paper covers the full suite of resurgence preparedness and is, at this stage, a Finance paper only. This paper includes the BSG, and this section will be finalised to align to decisions taken by both Ministers through this report.

63. Decisions on the scheme policy are needed now to complete the required legislation and system design to stand up the BSG in 2021. The design features therefore need to be agreed by Cabinet or delegated Joint Ministers before Christmas. Inland Revenue will then implement the BSG by end February 2021. Officials have proposed delegation of further design to Joint Ministers through the Cabinet paper.

64. Officials will commence very limited stakeholder engagement on the high-level proposals, subject to your agreement on detailed parameters of the BSG including:

    a The trigger design, including the proposed 14 day delay before for applications open;

    b The mechanics of the 30% revenue drop test specifically the requirement that firms declare an actual drop in revenue over the preceding 14 days (as opposed to forecast);

    c The workability of the proposed requirements to include a more specific declaration that an applicant has been impacted by the COVID-19 public health restrictions;

    d Per-firm ($1,500) and per-FTE component ($400) payment rates; and

    e Alignment and interaction with the other support schemes (including the wage subsidy).

65. Officials propose no discussion with stakeholders on the proposals for reviewing whether subsequent payments or application rounds in prolonged resurgence events

66. There is a risk that this may build expectations early. This will be mitigated by engaging trusted stakeholders only.

3.

Inland Revenue
Te Tari Taake

POLICY AND STRATEGY

TE TAI ŌHANGA
THE TREASURY

# Joint Report: Further information and decisions on the Resurgence Support Payment

| | | | |
|---|---|---|---|
| **Date:** | Thursday 3 December 2020 | **Report No:** | T2020/3657 and IR2020/505 |
| | | **File Number:** | SH-11-1-5 |

## Action Sought

| | Action Sought | Deadline |
|---|---|---|
| Minister of Finance (Hon Grant Robertson)<br>Minister of Revenue (Hon David Parker) | **Agree** that the proposed Resurgence support payment be available at the start of any alert level escalation, including Alert level 2 and above.<br>**Note** the information on scheme interactions provided. | Monday 7 December 2020 |

## Contact for Telephone Discussion (if required)

| Name | Position | Telephone | | 1st Contact |
|---|---|---|---|---|
| Scott Russell | Senior Analyst, Transitions, Regions, and Economic Development, Treasury | s 9(2)(a) | N/A (mob) | ✓ |
| Jean Le Roux | Manager, Transitions, Regions, and Economic Development, Treasury | | N/A (mob) | |
| Richard Braae | Principal Policy Advisor, Inland Revenue | N/A | s 9(2)(a) | |
| Emma Grigg | Tax Policy Director, Inland Revenue | N/A | | ✓ |

## Actions for the Minister's Office Staff (if required)

**Return** the signed report to Treasury, and Inland Revenue.

**Refer** this report to the Minister for Small Business.

| Note any feedback on the quality of the report | |
|---|---|

**Enclosure**: Yes

# Joint Report: Further information and decisions on the Resurgence Support Payment

## Recommended Action

We recommend that you:

a) **Note** you have already agreed that the proposed Resurgence Support Payment should be available at Alert Level 2.

*Noted* *Noted*

*Minister of Finance* *Minister of Revenue*

b) **Agree** that the proposed Resurgence Support Payment should be also available at Alert Level 3 and 4 *(Officials' recommendation)*.

*Agree / Disagree* *Agree / Disagree*

*Minister of Finance* *Minister of Revenue*

c) **note** the information provided on the alignment of the policy settings for the Resurgence support payment, the Wage Subsidy Scheme and the Small Business Cashflow (Loan) Scheme, and the availability of different supports in some illustrative scenarios.

*Noted* *Noted*

*Minister of Finance* *Minister of Revenue*

d) **Agree** to align the eligibility test for pre-revenue firms with the Wage Subsidy Scheme settings in the Cabinet Paper that will be lodged on Friday 11 December 2020.

*Agree / Disagree* *Agree / Disagree*

*Minister of Finance* *Minister of Revenue*

e) **Note** that Officials recommend you address the approach to repayment requirements in the Cabinet Paper that will be lodged on Friday 11 December 2020.

*Noted* *Noted*

*Minister of Finance* *Minister of Revenue*

f) **refer** to the Minister for Small Business.

*Refer / Not referred* *Refer / Not referred*

*Minister of Finance* *Minister of Revenue*

s 9(2)(a)

Jean Le Roux
**Manager, Transitions, Regions, and Economic Development, Treasury**

Emma Grigg
**Tax Policy Director, Inland Revenue**

Hon Grant Robertson
**Minister of Finance**

Hon David Parker
**Minister of Revenue**

# Joint Report: Further information and decisions on the Resurgence Support Payment

## Purpose of Report

1. Ahead of taking a paper to Cabinet on 14 December regarding the economic support package in the event of a further resurgence of COVID-19, this report provides further information on the proposed Resurgence Support Payment (RSP)[1], including how the RSP aligns and interacts with other forms of resurgence support. The report also seeks your decision on whether the RSP should be available to applicants at alert level (AL) 2 and above, or only at AL2.

## Background

2. On 14 December, you, along with the Minister for Social Development and Employment and the Minister for Small Business, are taking a paper to Cabinet on the economic support package in the case of a resurgence of COVID-19.

3. The core elements of the Cabinet paper are:

   a) an expanded Leave Support Scheme at all Alert Levels, to encourage compliance with self-isolation guidance and reduce the risk and extent of resurgences;

   b) a new Resurgence Support Payment (RSP) to support firms' non-wage fixed and transition costs at Alert Level 2 (and possibly above);

   c) an improved Wage Subsidy Scheme (WSS) at Alert Level 3 and above; and

   d) additional measures at Alert Level 4 on childcare and residential tenancies, with further work on commercial tenancies.

4. The economic support package is intended to promote confidence, employment, and a rapid return to activity following the end of AL increases by providing the most affected firms with increasing levels of support as the severity and cost of public health restrictions rise. Affected businesses will be able to apply for the comparatively modest RSP when there is an increase in ALs, providing cash flow to cover fixed costs. Firms that require additional cash flow support can access the Small Business Cashflow Scheme (SBCS) or seek lending from their banks (including through the Business Finance Guarantee Scheme). If there is an escalation to AL3 or above, then the most affected firms could also seek the WSS to help them keep their employees. Other support on childcare, commercial rents and leave will also assist firms and households through public health restrictions.

5. The key purpose of agreeing this package in December is to provide businesses and the public with more predictability of the support that will be available to them in the event of further Alert Level rises, and help ensure that a comprehensive response can be delivered in a timely fashion.

6. Last week, the Treasury provided the Minister of Finance with an early draft of this Cabinet paper, and will provide an updated version of the Cabinet paper to your offices early next week.

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[1] The RSP was previously referred to as a Business Support Grant.

7. There are several moving parts for the design of the resurgence package, including Ministerial decisions regarding expanding the Leave Support Scheme, and further design of the WSS. Officials will provide separate reports to responsible Ministers on these issues alongside this report (such as Minister for Social Development and Employment on the WSS and the Minister for Workplace Relations and Safety on the Leave Support Scheme).

8. Ahead of providing you with an updated Cabinet paper on the entire resurgence package, this report provides further information on the proposed RSP, including how the RSP aligns and interacts with other forms of resurgence support. This report also seeks your decision on whether the RSP should be available to applicants at AL2 and above, or at AL2 only.

9. We have annexed a more detailed explanation of the interaction and alignment between the policy settings of the proposed RSP, WSS and SBCS. This sets out indicative payments to firms under different scenarios.

## When should the RSP be available?

10. The Minister of Finance has indicated that the RSP should be more limited in coverage than previous support schemes. There was a question from Ministers about whether the RSP should be available to businesses only at AL2, or at higher ALs too when the WSS is available as a form of support.

**Having the RSP available at only AL2 is broadly workable but not recommended**

11. In practice, making the RSP available only at AL2 could be achieved by requiring that the revenue drop be demonstrated over the period at AL2 only. This does mean that in a situation where alert levels escalate straight to AL3, the RSP would not be available.

12. However, we consider there to be significant issues with availability of the scheme being restricted to AL2 only. The overarching policy intent of the scheme [T2020/3446] is to provide grant-based support for firms' fixed costs upon escalation to AL2+, even with wage cost support available in the form of the wage subsidy. The schemes are complementary in that they support fixed and wage costs to the most affected firms during periods of high public health restrictions (i.e. firms with a 40% revenue decline in AL3 and AL4).

13. A common theme in stakeholder engagement to date has been that fixed costs, particularly rent, remain a significant stressor on firms during elevated alert levels. The gap between firms' revenues and expenses which emerges under the public health restrictions is widened at AL3. As such, supporting *non-wage* costs at AL2 but not at AL3 contradicts the scheme's stated purpose. Stakeholders supported the RSP, recognising the need for strong integrity measures.

14. The pass-through requirement of the WSS, which we consider essential to achieving support for employment, households, and individuals in line with the scheme's intention, means that firms either receive no support for non-wage costs at AL3, or that firms face a choice in whether or not to comply with the pass-through requirement of the WSS. Stakeholder engagement highlighted a synergy between the proposed RSP and the WSS when available simultaneously, in making explicit the distinction between the RSP for firm support, and the WSS for employment support. We consider it advantageous to offer the WSS and the RSP concurrently, as it will encourage proper pass-through, making the WSS more effective.

15. Further, were the RSP available only at AL2, and the WSS to be the only grant-based support accessible at AL3, some small firms would receive more support at AL2 than at AL3, if it were a relatively short period of alert level escalation. Moreover it would create

confusion in events similar to the Auckland resurgence, as an escalation to AL3 in one region would activate the WSS nationally while the escalation to AL2 elsewhere would activate the RSP nationally.

16. For the reasons described above, we recommend that the RSP remains available at AL2 and above.

**Ways to limit the fiscal impact of the RSP**

17. If you would like to further contain the fiscal cost of the scheme, three options for limiting the size of support provided by the RSP are set out below. Some of these are indicative and would require further work to develop, and to mitigate the potential challenges.

*Exclusivity of support schemes*

18. An option to enable both schemes to be available concurrently, but restricting firms' access to either the WSS or the RSP would be to establish an effective upper limit for the RSP eligibility threshold at AL3 and above. This would mean the RSP would be available for firms that have experienced a revenue decline of between 30% and 39%, and the WSS when a revenue decline is experienced above 40%. This enables some support for firms fixed costs to be provided when there is an escalation from AL1 to AL3 only, with no escalation to AL2, however more heavily impacted firms would receive only the WSS.

19. Ultimately, we consider options such as this approach unworkable or undesirable as:

    a) If the RSP was only available for firms with revenue drops of between 30% and 39%, some firms experiencing a revenue drop of 30% to 40% would receive more support than an equivalently sized firm experiencing a revenue drop greater than 40%.

    b) The incentive to take on the WSS and maintain employment levels would be marginally weakened by the presence of an alternative but exclusive RSP. At least some firms would choose the unconditional RSP grant over the conditional wage subsidy. The magnitude of this effect cannot be estimated in the time available.

    c) If firms can choose which support to receive, with recurring payments under the WSS, while the RSP is a one-off payment, they could speculate on the duration of AL2 versus AL3 restrictions when engaging with support. This would partly undermine the certainty provided by having a pre-determined package of support.

    d) Operational complexity arises in enforcing any exclusivity between the support mechanisms. This is exacerbated by the fact the two schemes are implemented by different agencies. Such an approach would require IRD and MSD systems to be more coordinated than they currently are, with significant implications for the design of the respective implementation systems.

*Higher revenue drop tests*

20. A higher revenue drop threshold could also be considered. Most recently, we have recommended a 30% threshold, considering this to be suitably targeted towards firms experiencing the greatest activity constraints, while remaining relevant to the level of disruption at AL2. Any stronger revenue drop test applied at AL2 trades-off against the breadth of support provided.

21. We do not recommend revenue drop settings for the RSP being different in the event of an AL3 escalation to that applied at AL2. This would introduce significant additional

operational complexity to the application of revenue drop tests and confusion for applicants.

22. Increasing the revenue drop test to 40% at Alert Level 3 would also create a double 'cliff face' of support for firms just below the 40% threshold. A 30% threshold helps by providing support to firms that are still affected but cannot access the WSS at AL3.

23. For information purposes only, we have provided below, a table indicating the estimated cost and breadth of potentially eligible firms in 30%, 40%, and 50% threshold scenarios.

| $1,500 base payment, $400 per FTE payment, three revenue drop thresholds, indicating firm coverage and fiscal impact | | | | |
|---|---|---|---|---|
| **Revenue drop test** | **Escalation to AL2** | | **Escalation to AL3** | |
| | **Firm coverage** | **Fiscal impact ($ millions)** | **Firm coverage** | **Fiscal impact ($ millions)** |
| 30% | 150,000 | $ 360 | 190,000 | $ 460 |
| 40% | 120,000 | $ 300 | 160,000 | $ 380 |
| 50% | 90,000 | $ 230 | 120,000 | $ 300 |

*Lower payment amounts*

24. A lower payment amount could also be considered. However, we consider there to be some minimum floor on payment amounts, below which the scheme ceases to be useful. The current proposal means that firms with 5-9 FTEs would receive approximately 50% of one weeks' average fixed costs, which is relatively low considering an eligible firm would need to experience a 30% decline in revenue over a two week period. On balance, we recommend retaining the payment structure previously agreed.

## Targeting firms that have been specifically affected by COVID-19

25. The Minister of Finance expressed a desire for the RSP to require a declaration from applicants that their business or organisation has been specifically impacted by the COVID-19 restrictions associated with the most recent resurgence of COVID-19, to avoid support being provided to firms experiencing 'random' revenue drops. This will work in tandem with the revenue drop test to target support towards firms that are most affected. At the point of application, this test will be satisfied by the applicant certifying it has met the condition.

26. s 9(2)(f)(iv) [redacted] (the 'specifically affected business test'), and we recommend that they s 9(2)(f)(iv) [redacted].

27. Officials are undertaking selective consultation with stakeholders to inform the wording of this self-certification, s 9(2)(f)(iv) [redacted] that the applicant has been *specifically affected* by the alert level escalation. The issues being explored include whether a particular declaration wording will be easy for applicants to self-assess, since ambiguity will cause confusion and drive customer contact to IR. Officials

are also testing whether any concept or declaration wording phrase is verifiable as this will influence whether audit will be an effective tool for driving integrity.

28. The Cabinet paper as currently drafted includes a recommendation seeking agreement to the policy intent for a specifically affected test, but delegates further decisions to Joint Ministers about how best to achieve this. We consider this to be sufficient for the purpose of the Cabinet paper, and will work to provide you with further advice on how to best achieve a sufficiently clear, and workable ‘specifically affected’ test in the RSP declaration.

## Further design decisions

### Pre-revenue firms

29. Pre-revenue firms are eligible for the WSS and the SBCS if they meet specific eligibility criteria. There is an argument that pre-revenue firms ought not be eligible for the RSP. As the firms are pre-revenue, they would not suffer a decline in customer numbers upon an elevation in Alert Levels. That said, pre-revenue firms could conceivably suffer financially if an escalation delayed their capital raising activities, or if it deferred their progress towards being market-ready (particularly upon an increase to AL3 or AL4).

30. On balance, we recommend that pre-revenue firms, (typically R&D intensive start-ups) that have been in business for at least six months at the time of application, to be eligible for the RSP scheme. We propose to align the eligibility test with the eligibility test for the wage subsidy.

### Repayment requirements

31. There is a question for both the RSP s 9(2)(f)(iv) as to the circumstances in which recipients would be required to repay the funds they receive.

32. Officials are providing substantive advice for Ministers in parallel to this report that addresses the repayment obligations of s 9(2)(f)(iv) recipients. It will address, for instance, options regarding repayment obligations s 9(2)(f)(iv)

33. You may prefer to delay making a decision on repayment requirements for the RSP until you have received the advice s 9(2)(f)(iv). This would give you an option for more consistency between the schemes. Alternatively, applicants for the RSP could be required to repay the grant only where an applicant was retrospectively found to be ineligible at the time of their application. Depending on decisions taken by responsible Ministers, this may not be aligned with s 9(2)(f)(iv), but the integrity risks are less acute for the RSP as it will include a revenue test based on actuals, and individual applicants will not be eligible for more than $21,500. We therefore consider there to be diminishing returns for a significant repayment policy feature, given the potential implementation and resourcing implications.

34. IR’s preference is to resolve this issue prior to announcement of the policy as IR may receive inquiries about eligibility that cannot be answered. Officials recommend that you address this issue in the Cabinet Paper that will be lodged on Friday 11 December 2020.

35. We recommend engagement with stakeholders prior to finalising any new rule requiring repayment by profitable firms.

## Annex one: Alignment of the RSP with other resurgence support schemes

The Wage Subsidy Scheme (WSS), Small Business Cashflow Scheme (SBCS) and the Resurgence Support Payment (RSP) provide complementary forms of support to firms in different Alert Level scenarios. These are further supported by other policies, including the Leave Support Scheme, changes to commercial rent legislation, the Business Finance Guarantee Scheme (BFGS) and support from private lending. This annex focusses on the three schemes providing direct funding to firms with relatively similar application processes, but different features recognising the unique support each scheme provides. The annex covers some illustrative scenarios of how these support measures would kick in and be available to different firm types. It also sets out the key parameters and how they interact, and rationales for any discrepancies.

*This information has been prepared under urgency and may contain errors.*

***How the range of supports kick in, and what approximately is available in different resurgence scenarios (illustrative only)***

| | **Amount of support available per firm type**<br>*Key assumptions:*<br>• *Firm meets the eligibility tests,*<br>• *RSP is still turned on at AL3, and*<br>• *Firm has ability to access the SBCS because they have not used it yet or they have repaid their first loan.* | | | | |
|---|---|---|---|---|---|
| **Scenario** | | *Sole trader* | *SME (10FTE)* | *Medium sized firm (50 FTE)* | *Large firm (500 FTE)* |
| **AL2 - 4 weeks**<br>(RSP comes on after 14 days) | RSP | $1,900 | $5,500 | $21,500 | $21,500 |
| | SBCS | $11,800 | $28,000 | $100,000 | $0 |
| | WSS | $0 | $0 | $0 | $0 |
| | **Total support** | **$13,700** | **$33,500** | **$121,500** | **$21,500** |
| **AL2 - 1 week; and**<br>**AL3 - 4 weeks**<br>(RSP available 14 days after start of AL2, WSS avail 7 days after AL3. In this case those timelines line up.) | RSP | $1,900 | $5,500 | $21,500 | $21,500 |
| | SBCS | $11,800 | $28,000 | $100,000 | $0 |
| | WSS | $2,343 | $23,432 | $117,160 | $1,171,600 |
| | **Total support** | **$16,043** | **$56,932** | **$238,660** | **$1,193,100** |
| **AL3 - 4 weeks**<br>(Wage subsidy on at 7 days, RSP opens after 14 days) | RSP | $1,900 | $5,500 | $21,500 | $21,500 |
| | SBCS | $11,800 | $28,000 | $100,000 | $0 |
| | WSS | $2,343 | $23,432 | $117,160 | $1,171,600 |
| | **Total support** | **$16,043** | **$56,932** | **$238,660** | **$1,193,100** |
| **AL2 - 1 week; and**<br>**AL3 - 1 week before return to AL2 – 4 weeks**<br>(WSS and RSP come on 14 days after start of escalation, but WSS makes only one payment). | RSP | $1,900 | $5,500 | $21,500 | $21,500 |
| | SBCS | $11,800 | $28,000 | $100,000 | $0 |
| | WSS | $1,172 | $11,716 | $58,580 | $585,800 |
| | **Total support** | **$14,872** | **$45,216** | **$180,080** | **$607,300** |

Note: The SBCS is always available over the next 3 years, but has a retrospective revenue drop test. It is important to note that because the SBCS is a debt product, we do not expect significant uptake in a resurgence scenario. Many firms will not be in a position to access it, and others are unlikely to apply due to the heightened uncertainty.

***Differences between the schemes:***

| Setting | WSS setting | SBCS setting | RSP setting | Rationale | RSP Decision Status |
|---|---|---|---|---|---|
| Revenue decline threshold | 40% | 30% | 30% | Thresholds in general align to economic impact of AL (lower for RSP in AL2+, higher for WSS in AL3+). Avoids double cliff face at AL3. | Resolved |
| Revenue decline test based on actuals or forecasts | Prospective (based on forecasts) and retrospective allowed | Retrospective (based on actuals) from 31 Jan 2021 | Retrospective (based on actuals) | Integrity measure. For AL3/4, concern some firms may not be able to access finance, impacting confidence so prospective test enables fast payment and higher confidence and staff retention. These issues are less present at AL2, hence retrospective test that improves integrity. | Resolved |
| Payment rate | $585.80 per FTE per week | $10,000 per firm, $1,800 per FTE | $1,500 per firm, $400 per FTE | Schemes support different objectives: wage costs, fixed costs, and lending. RSP and SBCS weighted to small firms through a higher per-firm component. | Resolved |
| Number of employees | Eligible regardless of number of FTEs | Fewer than 50 FTEs | All FTEs, but payment capped at 50 FTEs | SBCS creates competitive neutrality issues at margin. If we want large firms to keep employees on then need to scale by size. This rationale doesn't apply for fixed/non-wage costs. In the case of the RSP, payment cap recognises that larger firms have larger balance sheets. | Resolved |
| Implementation agency | MSD | IR | IR | MSD supporting firms for labour market attachment. IR supporting firms with cashflow. Potential for IR to implement all three schemes in future. | Resolved |
| Requirement to pass through to employees | Yes | No | No | WSS provides support to keep workers in employment, so funds should be spent on wage costs. This is not required for SCBS and RSP. | Resolved |
| Restrictions on use | Wage expenses only | Business expenses only | Business expenses only | Pass through requirement for WSS restricts funds to wage expenses. SBCS and RSP supports cashflow, so declaration restrictions applied to business expenses (wages, capital expenditure, core operating costs, cannot be used to pay dividends). | Resolved |
| Payment frequency | Fortnightly | One-off | One-off | RSP targeted at fixed costs during a transition to an AL escalation, so the payment covers one-off adjustments. WSS supports continued employment, linked to duration at AL3/4. SBCS is a loan, up to a limit. No subsequent rounds for RSP. | Resolved. |
| New companies | No requirement to have been in business | In business for 6 months, ownership continuity test (new criterion) | In business for 6 months, ownership continuity test | Integrity measure to exclude shell companies attracting the SBCS and RSP. The restriction is an integrity measure to exclude shell companies or 'phoenix' arrangements. This is not required for the WSS as the employment objective requires a firm to have staff and to pass it through. | Resolved |
| Tax treatment | No income tax or GST on grant | Because it's a loan, not taxable nor is there GST | No income tax but expenditure not deductible. GST to pay on grant but GST can be claimed on purchases | Different treatment for GST is justified since WSS must be passed onto employees and wages are not subject to GST. | Resolved |

| Setting | WSS setting | SBCS setting | RSP setting | Rationale | RSP Decision Status |
|---|---|---|---|---|---|
| Requirement to take active steps to mitigate financial impact of COVID-19 | Yes | No | No | Requirement not recommended for RSP and SBCS as the economic environment already incentivises businesses to make adjustments that build resilience. The WSS test is difficult to assess and confusing for businesses. | Resolved. |
| Link between revenue drop and COVID impact | Proposed new requirement for an employer to have been *specifically affected* by a current elevation in ALs to 3 or above, rather than COVID-19 in general | Requirement for firms to declare that the decline is attributable to COVID-19 and that they hold records to demonstrate this as part of the application | Requirement for an employer to have been *specifically affected* by a current elevation in ALs to 2 or above, rather than COVID-19 in general | Declaration of impact linked to a specific escalation for WSS and RSP, recognising that these schemes are activated by an escalation. Not required for the permanent SBCS. Declaration is based on self-assessment, risks ambiguity, delegation to confirm declarations including specifically affected language for RSP. | Delegate |
| Activation | 7 consecutive days or more at relevant Alert Level 3 and/or 4 | Permanently activated | 7 days or more at relevant Alert Level (2, 3 or 4) (at least part of 7 consecutive days) | Minimum period encourages business resilience, consistency increases ease of communication. 7 days appropriate to avoid activating schemes for short, precautionary AL escalations. | Decision sought through this paper |
| Eligibility of charities and not-for profits | Yes | Yes, with "viable ongoing organisation declaration" | Yes, with "viable ongoing organisation declaration" if such a declaration is required for the RSP. | No such declaration in WSS, introduced in SBCS and recommended to be carried through to enable a path for access to charities and not-for-profits. | Resolved |
| Comparator period | Year-on-year comparator (under review) | Year-on-year comparator, but if COVID-19 impacted then across two years. | TBC | The year-on-year comparator will be complicated from March 2021 as the comparator month will also have been suppressed by the March 2020 AL4 declaration. SBCS will now require applicants to demonstrate an impact across two years to mitigate against this (subject to Cabinet decision). Shorter comparator periods could disadvantage or advantage seasonal businesses. New businesses would hold a shorter comparator period. | Delegate |
| Viability test | None | "Viable, ongoing business" | "Viable, ongoing business" | SCBS introduced a requirement that firms declare they are a "viable, ongoing business." RSP could include this also as it may strengthen signals to better target the scheme. | Detail to be resolved in Cabinet paper |
| Eligibility of groups of related companies | None (per FTE payment) | One loan per participant in the group provided total number of employees 50 or fewer | TBC | WSS calculated based on a per-FTE basis, supporting FTEs across a group of businesses (e.g. branches of one firm). SBCS and RSP provides a per-firm basis, which if applied per branch could advantage a firm. Further work required to accommodate for regional escalations (i.e. affected branch may require a per-firm contribution, but what about the other branches operating normally?). | Delegate |
| Closing date for applications | Scheme will remain open long enough for employers to assess revenue drop and submit claims for eligible period(s). Actual closing date depends on operational decisions by MSD. | Closes in 2023 | 1 month after resumption of AL1 | Application round requires an end point for WSS and RSP, given temporary nature. 1 month at AL1 provides firms with sufficient time to apply based on retrospective actuals. | Resolved |
| Sectoral targeting | None | None | None | Sectoral targeting is infeasible as it creates boundary issues (e.g. sector definitions), and the most impacted firms can be better targeted through a well-designed revenue decline test. | Resolved |
| Regional targeting | None, with discretion to apply manual approach in very local Alert Level escalation | None | None, with discretion to apply manual approach | Regional targeting fails to recognise supply chain linkages and is administratively complex. We recommend that no regional targeting occur, however if this is required then options could include self-declaration that a business is within a region, or a local third party would approve a list of eligible businesses (slowing the application process). These options would still be | Resolved, however a late decision to incorporate regional targeting could delay implementation. |

| Setting | WSS setting | SBCS setting | RSP setting | Rationale | RSP Decision Status |
|---|---|---|---|---|---|
| | | | | high-trust, presenting integrity and targeting risks (firms outside might still receive the payment, some firms that should might not receive the payment). Regional targeting would increase back-end checking requirements on IR and would result in high customer contacts. | |
| Eligibility of sole traders | Yes | Yes | Yes | Sole trader eligibility creates some integrity risk but sole traders are a significant proportion of firms so need to be covered. Definition of revenue will be restricted to active income in the SBCS and RSP, stopping landlords or those whose income is dividends or interests from accessing the scheme. | Resolved |
| Definition of revenue | Not required, but work occurring. | Not required, but work occurring. | Not required, but work occurring. | s 9(2)(f)(iv) [redacted] | Detail to be determined in operational guidance |
| State sector organisations | Eligible subject to a waiver from MOF | Eligible subject to a waiver from MOF | Eligible subject to a waiver from MOF | State sector organisations that operate on a commercial basis are therefore susceptible to revenue declines in escalation events. However, as the Crown has an ownership interest these organisations must first seek approval from the MOF to submit an application for the WSS. The same rationale applies for the RSP, so we recommend it carry through. | Resolved |
| Pre-revenue firms | Eligible with amended revenue drop test | Eligible with amended revenue drop test | Eligible with amended revenue drop test | Firms without revenue do not need compensation for reduced revenue, but may still have reduced activity particularly at AL3 so should be eligible for WSS and SBCS support. The RSP is targeted to AL2 resurgences, so the argument for pre-revenue firms may be weaker, however this is recommended for alignment purposes. | Resolved |
| Repayment requirements | Repayment required if applicants no longer meet obligations and criteria in declaration. | Yes | TBC | WSS did not establish a repayment requirement for firms that subsequently become profitable. Nonetheless, Some firms have repaid voluntarily for this reason. The RSP will provide relatively small grants (maximum $21,500) and is subject to a retrospective test (i.e. experience of revenue drop is demonstrated), so this may be unnecessary for the RSP. Repayment required for SBCS as it is a loan. | Indication sought from Ministers on whether to require repayments of RSP for firms that become profitable. |
| FTE reference point | Date of application | Date of application | Date of application | Per-FTE payment calculation must be based on a reliable data. Firms required to base FTEs on most recent filing information. | Resolved |

MINISTRY OF SOCIAL DEVELOPMENT
TE MANATŪ WHAKAHIATO ORA

# Coversheet

## Increasing main benefit abatement thresholds on 1 April 2021 and consequential adjustment to the Minimum Family Tax Credit

Hon Carmel Sepuloni, Minister for Social Development and Employment

Hon David Parker, Minister of Revenue

These documents have been proactively released.

*3 December 2020, Regulatory Impact Assessment – Increasing main benefit abatement thresholds on 1 April 2021 and consequential adjustments to the Minimum Family Tax Credit*

*7 December 2020, Cabinet paper – Increasing main benefit abatement thresholds on 1 April 2021 and consequential adjustments to the Minimum Family Tax Credit*

*7 December 2020, Cabinet paper – Appendix One*

*7 December 2020, Cabinet Minute CAB-20-MIN-0512, Cabinet Office.*

Abatement thresholds for main benefits are being increased from 1 April 2021 to enable beneficiaries to work a greater number of hours before their benefit reduces. The Minimum Family Tax Credit will also be adjusted to reflect the increases to the abatement thresholds.

Some parts of this information release would not be appropriate to release and, if requested, would be withheld under the Official Information Act 1982 (the Act). Where this is the case, the relevant sections of the Act that would apply have been identified. Where information has been withheld, no public interest has been identified that would outweigh the reasons for withholding it. This is the key to the redaction codes used for this release:

- Section 9(2)(a) – to protect the privacy of natural persons
- Section 9(2)(f)(iv) - the confidentiality of advice under active consideration.



**Search Tags: Abatement thresholds, Minimum Family Tax Credit**

**Budget Sensitive**

Office of the Minister for Social Development and Employment

Office of the Minister of Revenue

Cabinet

# INCREASING MAIN BENEFIT ABATEMENT THRESHOLDS ON 1 APRIL 2021 AND CONSEQUENTIAL ADJUSTMENT TO THE MINIMUM FAMILY TAX CREDIT

## Proposal

1 This paper seeks Cabinet agreement to:

1.1 increase main benefit abatement thresholds on 1 April 2021; and

1.2 consequentially adjust the Minimum Family Tax Credit threshold for 2021/22.

## Relation to government priorities

2 Increasing main benefit abatement thresholds is signalled as a priority in the Labour Party's 2020 manifesto. This aligns with the Government's priority to support New Zealand's economic recovery through incentivising those on main benefit to engage in paid work and builds on our commitment to ensure benefit abatement thresholds better reflect existing labour market settings.

## Executive Summary

3 Main benefits are targeted to people who need it the most through the eligibility criteria and the benefit abatement regime. People receiving a main benefit can earn up to a certain level of income per week (abatement threshold) before their benefit begins to reduce.

4 The abatement thresholds were adjusted on 1 April 2020 through funding secured through Budget 2019. However, prior to this adjustment, main benefit abatement settings had not been adjusted for almost a decade.

5 This has meant that the value of what people could earn before their benefit abated has declined in real terms over time as wages have increased. The number of hours beneficiaries can work before their benefit begins to abate has reduced significantly over the years and the current settings offer little incentive to engage in paid work while receiving a main benefit.

6 Therefore, I propose that the abatement thresholds be increased to $160 and $250 per week from 1 April 2021, which will allow beneficiaries to work up to eight hours on minimum wage before abatement occurs. This is in line with our manifesto commitment.

7 This increase will allow working beneficiaries to keep a greater proportion of their earnings as they can work more hours before their benefit begins to abate. This will improve financial incentives for a significant number of people to enter the labour

market and maintain part-time work while on a benefit. While the proposed increase better incentivises part-time work than full-time work, it ensures that some (who may be currently facing reduced hours) can access financial assistance while still being attached to their job.

8 Increasing the abatement thresholds to $160 and $250 per week is expected to benefit approximately 82,900 individuals and families by on average of $18 per week. Of these, approximately 50,200 are families with children. These changes are estimated to reduce child poverty by around 6,000 (+/- 3,000) on the AHC50 fixed line measure[1] and 2,000 (+/- 3,000) on the BHC50 measure[2] in 2021/22.

9 The proposed increase will increase the benefit cut-out point[3], which has a number of flow-on impacts to other financial assistance:

9.1 Of the 82,900 individuals and families, around 50,300 are non-beneficiaries who currently receive the Accommodation Supplement (AS), who will become eligible for a higher rate of payment (average gain of $12 a week);

9.2 A small number of non-beneficiaries (approximately 4,000) will become newly eligible for AS;

9.3 A small number of non-beneficiaries (approximately 7,000) will become newly eligible for a main benefit; they will also become eligible for the Winter Energy Payment during the winter period.

10 s 9(2)(f)(iv) [redacted]

11 Abatement threshold changes also affect decisions on the Minimum Family Tax Credit (MFTC). The MFTC has been adjusted annually to reflect changes in settings, such as benefit rates and abatement thresholds, to maintain the financial incentives provided by the MFTC for families with children to work at 20 or 30 hours a week.

12 The MFTC threshold needs to be adjusted for 2021/22 to reflect the proposed increases to the abatement thresholds. We recommend a partial increase for 2021/22, increasing the MFTC threshold to $30,576 per annum. This proposed partial increase ensures that sole parents, who account for approximately 90% of the MFTC recipients, remain better off working and receiving MFTC than receiving a benefit. The partial increase also has a lower fiscal cost, reduces the impact on financial disincentives to work full-time and will have less of an impact on the cost of options being considered as part of the review of Working for Families tax credits. This review will include further consideration of the MFTC.

[1] AHC measures the number of children in households with incomes much lower than a typical 2018 household, after they pay for housing costs, and is measured by the threshold line set at 50 per cent of the median income in 2017/18, after housing costs are removed.
[2] BHC50 is a moving-line income measure, with the poverty threshold taken the year the data is gathered (low income, before housing costs – moving-line measure). BHC50 measures the number of children in households with much lower incomes than a typical household, and is measured by the threshold line set at 50 per cent of the median household income in the year measured.
[3] The point at which a person's payment is reduced to zero because of their income or assets.

13 The partial increase to the MFTC threshold will benefit around 4,000 families. Approximately 400 of these will be newly eligible for the payment.

## Background

*Main benefits provide income for people who are unable to fully support themselves through paid work*

14 Main benefits are targeted to people who need it the most through the eligibility criteria and the benefit abatement regime, which gradually reduces payments that people receive as their other income, for example from work, increases.

15 Generally, the full rate of benefit will be available to people earning up to a certain amount; this is the abatement threshold. Above this amount, payments reduce gradually as people's incomes increase based on the abatement rate. Allowing people to work for a small number of hours without having their benefit payment affected encourages labour market entry, and also recognises that there are additional costs associated with work, such as transport costs.

16 There are two main benefit abatement regimes, which seek to align the financial incentives to work with the level of labour force engagement expected of the individual (based on their circumstances):

16.1 ***The full-time regime*** has a relatively high abatement rate of 70 percent which is designed to incentivise full-time work. This mainly applies to people on Jobseeker Support (JS)-related benefits.[4]

16.2 ***The part-time regime*** has two abatement thresholds, with a relatively low abatement rate of 30 percent applied at the first threshold, and an abatement rate of 70 percent applied at the second threshold. This is designed to incentivise part-time work and applies to people receiving Sole Parent Support (SPS) and Supported Living Payment (SLP).

17 The full-time abatement regime is also applicable for recipients of New Zealand Superannuation (NZS) and Veteran's Pension (VP) if they choose to include a non-qualifying partner in their payment.[5] If they choose to include a non-qualifying partner, they receive payment as a couple but the payment becomes subject to an income test based on the income of both partners.

18 Recipients of VP who are under 65 also have their payments subject to an income test. VP (under 65) is a grandparented income support payment under the War Pensions Act 1954 for veterans who are unable to work due to illness or injury. The abatement regime for VP (under 65) mirrors those for SPS and SLP, which is designed to encourage part-time work.

19 The current abatement thresholds are set out below:

| **Abatement rate at different thresholds** | **Current amount beneficiaries can earn per week before their benefit begins to abate** |
|---|---|

[4] This includes Jobseeker Support on the grounds of a health condition, injury or disability.

[5] From 9 November 2020, the option to include non-qualifying partners in payments for NZS or VP is no longer available.

| | |
|---|---|
| JS (abatement rate of 70%) | $90 |
| NZS and VP with non-qualifying partner (abatement rate of 70%) | $115 |
| SPS, SLP and VP (under 65) – Threshold One (abatement rate of 30%) | $115 |
| SPS, SLP and VP (under 65) – Threshold Two (abatement rate of 70%) | $215 |

20 Under the current settings, a JS recipient would have their benefit reduce by 70 cents for every dollar earned over $90 per week. For a SPS recipient, their benefit would reduce by 30 cents for every dollar earned over $115 per week, and by 70 cents for every dollar earned over $215 per week.

## Prior to the adjustments made on 1 April 2020, abatement thresholds had remained unchanged for almost a decade

21 Abatement thresholds are increased through one-off changes, rather than being adjusted annually. On 1 April 2020, the abatement thresholds were adjusted through funding secured through Budget 2019. This funding committed to progressively increase the abatement thresholds for main benefits over four years (until 2023) in line with minimum wage increases [CAB-19-MIN-0174.36 refers].[6] The adjustment aimed to ensure that the number of hours a beneficiary could work on minimum wage before abatement occurred would not reduce any further.

22 However, prior to the April 2020 adjustment, the last adjustment to main benefit abatement settings occurred in September 2010, when changes were made for recipients of (what was then known as) Domestic Purposes Benefit, Invalid's Benefit, Widow's Benefit as well as for VP (under 65), and NZS and VP with non-qualifying partners. For the full-time abatement regime for JS, the threshold had remained at $80 since it was last adjusted in 1996.

23 This has meant that the value of what people could earn before their benefit abated has declined in real terms over time as wages have increased. For example, a person receiving JS in 1997 could work approximately 11.4 hours on minimum wage ($7.00 per hour) before their benefit abated. In 2019, a person receiving JS could only work for approximately 4.5 hours on minimum wage ($17.70 per hour) before their benefit abated.

## Increasing the abatement thresholds will support beneficiaries to work more

24 I consider that it is timely to increase the abatement thresholds as the current settings are out of line with the original abatement settings. The number of hours beneficiaries can work before their benefit begins to abate has reduced significantly over the years and current settings offer little incentive to engage in paid work while receiving a main benefit.

25 Therefore, I propose that the abatement thresholds be increased on 1 April 2021 as set out below:

[6] Budget 2019 funding of $97.1 million to increase abatement thresholds over four years from $80, $100 and $200 in 2019 to $105, $130 and $230 in 2023. These adjustments set the new thresholds by rounding to the nearest $5.

| Abatement rate at different thresholds | What beneficiaries can earn per week before their benefit begins to abate | |
|---|---|---|
| | Current | From 1 April 2021 |
| JS (abatement rate of 70%) | $90 | $160 |
| NZS/VP with non-qualifying partner (abatement rate of 70%) | $115 | $160 |
| SPS/SLP and VP (under 65) - Threshold One (abatement rate of 30%) | $115 | $160 |
| SPS/SLP and VP (under 65) - Threshold Two (abatement rate of 70%) | $215 | $250 |

26 These proposed increases are in line with our manifesto commitment to increase abatement thresholds to $160 and $250 per week from 1 April 2021. We committed to support families towards better futures by allowing people to keep more of what they earn while on a benefit.

27 These increases will allow working beneficiaries to keep a greater proportion of their earnings as they can work up to around eight hours on minimum wage[7] before their benefit begins to abate, recognising that eight hours is a typical working day. For recipients of SPS, SLP and VP (under 65), they can work up to 12.5 hours before their benefit abates at the higher rate. These increases mean the thresholds will better align with the original abatement settings which enabled beneficiaries to work for longer hours before abatement occurred.

28 The proposed changes to the abatement thresholds do not impact Youth Payment or Young Parent Payment as these benefits have a separate abatement regime, which is the same as the regime for Student Allowance.[8] The changes also do not impact Orphan's Benefit or Unsupported Child's Benefit as these do not have an income test.

*Increasing abatement thresholds will increase the incomes of working beneficiaries and better incentivise part-time work…*

29 I believe the proposed increases will improve financial incentives for a significant number of people to enter the labour market and maintain part-time work while on a benefit. This is because beneficiaries will be able to work for longer before their benefit begins to abate and keep a greater proportion of their earnings.

30 A significant number of non-beneficiaries (low-income working individuals and families) who are currently receiving the AS will also become eligible for a higher rate of payment. This is because the AS abatement threshold for non-beneficiaries is aligned to the JS benefit cut-out point[9], which will increase as the abatement threshold increase.

[7] Based on minimum wage increasing to $20.00 per hour on 1 April 2021.
[8] The current abatement threshold is $224.58 per week; any earnings above this point are abated at 100 percent.
[9] Benefit cut-out point is the point at which a person's payment is reduced to zero because of their income or assets.

31 Increasing the abatement thresholds to $160 and $250 per week is expected to benefit approximately 82,900 individuals and families by on average of $18 per week.[10] Of these:

31.1 around 29,500 individuals and families currently receiving a working-age benefit are expected to benefit from the change with an average weekly gain of $29;

31.2 around 3,100 individuals and families receiving NZS are expected to benefit with an average weekly gain of $21;

31.3 more than half (50,300) are non-beneficiaries receiving AS, who will gain an average of $12 a week;

31.4 around 50,200 are families with children; these changes are estimated to reduce child poverty by around 6,000 (+/- 3,000) on the AHC50 fixed line measure and 2,000 (+/- 3000) on the BHC50 measure in 2021/22.

32 I note that the proposed increases will likely mean that working beneficiaries in part-time work may be less incentivised to move to full-time work as the proposed changes reduce the financial gain from moving from part-time to full-time work. This may be of concern where financial incentives to work full-time are currently relatively weak, for example, for sole parents on low/minimum wages with childcare costs.

33 However, given the economic impacts of COVID-19 and many people facing reduced hours, the proposed increase in abatement thresholds ensures that those with reduced hours can access financial assistance while still being attached to their job.

34 Better incentivising beneficiaries to enter the labour market and maintain part-time work can ensure people take the opportunity to be in employment without losing financial security. This is especially important for those already disadvantaged in the labour market prior to COVID-19, such as sole parents and people with a health condition, injury or disability. Part-time work can also provide a pathway to full-time work by providing opportunities to connect with the labour market, get work experience and become familiar with the demands that can come with employment.

*… and will result in some people becoming newly eligible*

35 Changes with welfare system settings often have various flow-on impacts. Increasing abatement thresholds will result in some people becoming newly eligible. This is because abatement thresholds determine the benefit cut-out point, which is the point at which a person's payment is reduced to zero because of their income or assets.

36 A small number of people will become newly eligible for AS; it is estimated that around 4,000 additional people could take up AS as a result of the changes. A small number of people will become newly eligible for a main benefit as well. It is estimated that around 7,000 additional people could take up a main benefit as a result. They will also

[10] The modelling factors in flow-on impacts of the proposed abatement threshold changes, including likely increase to the Minimum Family Tax Credit (MFTC). The overall number of people affected by the abatement threshold changes include families who are expected to gain through increases in the MFTC. The modelling is also based on the Pre-Election Economic and Fiscal Update 2020 forecasts. These forecasts were prepared during a time of high uncertainty, and actual volumes of benefit receipt have tracked lower than the forecast. Therefore, the actual numbers may be lower once more recent forecasts are considered.

become eligible for the Winter Energy Payment (during the winter period) as eligibility for this payment is linked to main benefits.

*A small number may be financially disadvantaged as a result of the abatement threshold increases but I propose compensating them through a Transitional Assistance Payment*

37 A small number of people may be financially disadvantaged as a result of the proposed abatement threshold increases; around 79 individuals and families are expected to lose an average of $19 a week. People are likely to be disadvantaged for the following reasons:

37.1 Childcare Assistance – supplementary assistance payments, including AS, are included as income for the purposes of determining the rate of Childcare Assistance payable. Some may face a reduction in the hourly subsidy rate as a result of abatement threshold increases if they become newly eligible for AS or their AS payment increases.

37.2 Temporary Additional Support (TAS) – TAS recipients with high disability costs can receive additional support over and above the upper limit through an additional top-up called the disability exception. Some people will lose their disability exception as a result of increases to their rate of benefit or other supplementary assistance, resulting in them moving off the TAS upper limit and becoming ineligible for the Disability Allowance exception.

38 I propose to implement a Transitional Assistance Payment (TAP) for these people who may be financially disadvantaged on 1 April 2021 as a result of the abatement threshold increases, to be available for up to 12 months. A TAP is a temporary non-taxable payment, paid through a welfare programme established under section 101 of the Social Security Act 2018.

39 This approach is consistent with other recent packages of changes to the income support system. For example, a TAP was provided for clients who were financially disadvantaged on 1 April 2020 because of one or more of the changes from the Income Support and COVID-19 Recovery Packages, which included abatement threshold increases.

s 9(2)(f)(iv) [redacted]

40 s 9(2)(f)(iv) [redacted]

41 s 9(2)(f)(iv) [redacted]

## Abatement threshold changes will also affect decisions on the Minimum Family Tax Credit

*The Minimum Family Tax Credit ensures that families with children are better off not on a benefit when in work than receiving a main benefit*

42 The Minimum Family Tax Credit (MFTC) is one of the Working for Families tax credits. It is received by low-income working families in each week that they work the required hours[11], do not receive a main benefit and have income below the prescribed weekly threshold.

43 On 30 November 2020, Cabinet agreed to retrospectively increase the MFTC threshold for the 2020/21 tax year to $29,432 to reflect the $25 increase to main benefit rates made on 1 April 2020 in response to COVID-19 [CAB-20-MIN-0490 refers]. Under this threshold, the MFTC tops up a family's income to at least $566 a week after tax.

44 The MFTC is intended to support the "making work pay" objective of the Working for Families package. Its purpose is to ensure that a family who works the required hours and does not receive a benefit always has a higher income than they could receive on a benefit. The MFTC threshold is set at $1 above the maximum income a two-parent family could receive on a benefit and is therefore sensitive to changes that impact the incomes of beneficiary families, such as benefit rates and abatement thresholds.[12]

45 The MFTC works by providing a payment so that a family's income reaches exactly the legislated threshold. For example, if a sole parent earns $25,000 of net income, then they would receive a payment of $4,432 on an annual basis under the new 2020/21 threshold as agreed to by Cabinet. If the sole parent works more and earns $1 more, their payment is reduced by $1. Therefore, there is no financial incentive for families receiving the MFTC to increase their hours or earnings until their net income is above the prescribed threshold.

46 However, the MFTC does ensure there is a strong financial incentive for families to increase their hours of work up to the 20- or 30-hour threshold and move off benefit.

47 In the 2019/20 tax year, around 3,800 families received the MFTC. The average MFTC payment per family was $3,100 at a total fiscal cost of approximately $12 million. Approximately 90% of those who receive the MFTC are sole parents.

*The MFTC has been increased annually since 2006*

48 As part of the introduction of Working for Families, on 26 April 2004, Cabinet agreed to increase the MFTC on 1 April each year by an amount sufficient to ensure that couples do not suffer a reduction in income when moving off benefit into 30 hours of paid work a week, from 1 April 2006 onwards [CAB Min (04) 13/4 refers].

49 Consequently, the MFTC threshold has been increased each year since 2006 to reflect the latest changes to relevant settings (such as benefit rates, the minimum wage and abatement thresholds).

[11] 20 hours for sole parents and 30 hours combined for couples.

[12] This threshold is then rounded up to the nearest $52 to produce a whole-dollar weekly amount.

50 As such, if the abatement thresholds increased as proposed on 1 April 2021, a decision would be required on whether to adjust the MFTC for the 2021/22 tax year to reflect the abatement threshold increase.

*We recommend partially increasing the MFTC threshold for 2021/22 in response to the proposed increases to the abatement threshold*

51 As noted above, prior to the adjustments made on 1 April 2020, the abatement thresholds had not been adjusted for almost a decade. Given that the proposed increases to the abatement thresholds are significant, the MFTC threshold would also require a significant adjustment to reflect this change.

52 We have considered three options around adjustment to the MFTC threshold for 2021/22 to reflect the abatement threshold increases:

52.1 Increase the MFTC threshold to $32,604 per annum ($627 per week) to fully reflect the abatement threshold increases – this would incur a fiscal cost of $51 million over the forecast period;

52.2 Partially increase the MFTC threshold to $30,576 per annum ($588 per week) – this would incur a fiscal cost of $17 million over the forecast period;

52.3 Do not increase the MFTC threshold.

53 These options involve trade-offs between financial incentives to work, fiscal costs and impacts on future reforms through the upcoming review of Working for Families. Appendix One sets out in detail the advantages and disadvantages of each of the options.

54 A partial or full adjustment to the MFTC threshold are finely balanced options. A full adjustment would ensure that no family could be better off on a benefit than they would be moving off benefit and receiving the MFTC and preserves the full policy intent of the MFTC.

55 However, a full adjustment extends the range of income over which families receive the MFTC, thereby reducing the financial incentive for those families to work greater hours or earn more income.

56 Also, a full adjustment would incur a significant fiscal cost and may make options for reform through the upcoming review of Working for Families more costly.

57 Therefore, we recommend partially increasing the MFTC threshold for 2021/22 by reflecting the maximum amount of income a sole parent on benefit could receive, instead of the maximum amount a two-parent household on benefit could receive. This partial increase ensures that:

57.1 Sole parents, who account for approximately 90% of the MFTC recipients, remain better off working and receiving MFTC than receiving a benefit

57.2 Changes to the MFTC will have less of an impact on the cost of options for reforming Working for Families

57.3 The impact of the changes to the MFTC on the financial disincentives to take up full-time work for low-income sole parents are smaller.

58 The partial increase to the MFTC threshold will benefit around 4,000 families on MFTC. Approximately 400 of these will be newly eligible for the payment.

59 We do not recommend not adjusting the MFTC threshold. This would mean that sole parents and couples will be better off on benefit than receiving the MFTC when they are receiving WEP and working over 20 or 30 hours.

## Financial Implications

60 The total cost of the policy changes proposed in this paper is estimated to be $410.979 million (net) over the next five years.

*Abatement threshold increases*

61 A pre-commitment to Budget 2021 is required in order to increase the abatement thresholds to $160 and $250 per week on 1 April 2021. The proposed increases to the abatement thresholds in 2021 are estimated to cost $387.496 million (net) over the next five years.

62 Note that this accounts for increasing the abatement thresholds in 2021 only; [redacted] s 9(2)(f)(iv) [redacted]

63 In addition, a pre-Budget commitment is required for the following:

63.1 $80,000 in Transitional Assistance Payment payments to be available for up to 12 months for people who may be financially disadvantaged on 1 April 2021 as a result of the abatement threshold increases

63.2 $6.403 million in operational costs, including costs for additional resources and IT system changes to implement the abatement threshold changes and administer TAP.

*Adjustments to the MFTC threshold*

64 A pre-commitment to Budget 2021 is required in order to increase the MFTC threshold for the 2021/22 tax year. The proposed increase is estimated to cost a total of $17 million over the forecast period.

## Legislative Implications

*Increasing the abatement thresholds on 1 April 2021*

65 An Order in Council under sections 452(1) and 452(2)(c) of the Social Security Act 2018 is required to increase abatement thresholds for JS, SPS, SLP and NZS on 1 April 2021.

66 In addition, an amendment to the Veterans' Support Regulations 2014 under section 265(1)(29A) of the Veterans' Support Act 2014 is required to increase abatement thresholds for VP. Subject to Cabinet agreement to the proposal, the Minister for Veterans has agreed to the Regulations being amended in order to implement the proposed increases on 1 April 2021.

67 Should Cabinet agree to the proposal, I will report back separately to the Cabinet Legislation Committee to progress these legislative changes in early 2021.

*Transitional Assistance Payment*

68 Subject to Cabinet decisions, I intend to approve and establish a welfare programme under section 101 of the Social Security Act to provide a TAP for up to 12 months for the small number of people who may be financially disadvantaged on 1 April 2021 as a result of the abatement threshold increases.

*Minimum Family Tax Credit*

69 Changes to the MFTC threshold can be made by an Order in Council as set out in sections ME 1(4) and MF 7(1)(d) of the Income Tax Act 2007. However, an Order in Council is required by 1 December 2020 for changes to apply from 1 April 2021. Therefore, the proposed adjustment to the 2021/22 MFTC threshold would need to be made via an amendment to the Income Tax Act 2007.

70 Should Cabinet agree to the proposed change to the MFTC, we recommend that Inland Revenue be instructed to draft the necessary amendments to the Income Tax Act 2007 to give effect to the revised thresholds for 2021/22 to be included in the next available tax Bill. This amendment would need to be passed by March 2021 for MFTC payments to be made at the new rate from 1 April 2021.

## Impact Analysis

### Regulatory Impact Statement

71 The Regulatory Impact Assessment (RIA) requirements apply to the proposals in this paper. A RIA has been prepared and is attached.

72 On 30 November 2020, Cabinet agreed to adjust the MFTC threshold for the 2020/21 tax year, but a RIA could not be undertaken due to time constraints [CAB-20-MIN-0490 refers]. As required under Cabinet's RIA requirements, the attached RIA also incorporates a Supplementary Analysis Report for the proposal on adjusting the 2020/21 MFTC threshold.

73 The Quality Assurance reviewers at Inland Revenue and Ministry of Social Development have reviewed the *Increasing main benefit abatement thresholds on 1 April 2021 and consequential adjustments to the Minimum Family Tax Credit* RIA and consider that the information and analysis summarised in it partially meets the quality criteria of the Regulatory Impact Analysis framework.

74 It partially meets the quality criteria for the following reasons:

74.1 There has been no analysis of the behavioural impacts. This is understandable given the timeframes and difficulties undertaking this analysis. However, the abatement thresholds and the MFTC are intended to encourage people to engage in work. Ideally, RIA would include an estimate of how many people will move into work as a result of the changes. The team notes the employment impacts will be monitored following implementation.

74.2 There is minimal discussion of alternative options to the abatement threshold increases, such as the staged increases committed to by the Government as part of Budget 2019. However, the Treasury RIA team advised the Ministry of

Social Development that a full RIA for the abatement threshold increases was not required because the increases were a manifesto commitment.

74.3 In terms of the MFTC, the status quo is based on a long-established policy of full alignment of the MFTC with benefit changes. There are now differing views on the appropriateness of this automatic linkage when there are significant increases in benefit entitlements and the case for change does not adequately consider the impact on the identified group of people who would be relatively worse off if the MFTC is not increased. Moreover, the analysis relies on certain assumptions about the fiscal cost, which could benefit from further explanation, such as the degree of behavioural response that could lead individuals to shift from paid employment with MFTC to paid employment with welfare support. The behavioural responses are uncertain. The team notes the employment impacts will be monitored following implementation.

74.4 The team notes that the options have administrative implications but there is little discussion of the impacts, for example from backdating MFTC payments.

74.5 Consultation with stakeholders – beyond government departments – has not happened due to time constraints and budget sensitivities.

75 The team recommends the Ministry of Social Development and Inland Revenue monitor the behavioural outcomes of the changes, especially the employment outcomes.

## Population Implications

76 Increasing abatement thresholds on 1 April 2021 will benefit approximately 82,900 low-income working individuals and families. Of these, approximately 15,500 are Māori families who will gain an average of $17 a week, and 5,100 are Pacific families who will gain an average of $17 a week.

77 The proposed increase will improve financial incentives to work part-time, which is particularly important for some cohorts, such as sole parents and people with a health condition, injury or disability, for whom suitable work may only be part-time due to their health conditions or childcare requirements. Approximately 21,310 sole parent families are expected to gain from the proposed abatement threshold increases (including from flow-on impacts to supplementary assistance such as Accommodation Supplement) by on average $17 a week. Approximately 8,024 recipients on Jobseeker Support on the grounds of a health condition, injury or disability, Supported Living Payment and Disability Allowance are expected to gain by an average of $26 a week.

78 A small number of people (sole parents and people with a health condition, injury or disability) may be financially disadvantaged as a result of the abatement threshold increases. A Transitional Assistance Payment will protect the entitlements of these people, who would otherwise lose additional support for childcare or disability costs, for up to 12 months.

79 The partial increase to the MFTC threshold for 2021/22 is expected to benefit around 4,000 families. Approximately 400 of these will be newly eligible for the payment. The vast majority of these families are sole parents.

80 Not fully aligning the MFTC threshold from 1 April 2021 could result in a small number of two-parent households being able to receive a higher income on a benefit than they could by moving off benefit at 30 hours of work.

## Human Rights

81 There are no human rights implications arising from the proposals in this paper.

## Consultation

82 The Department of the Prime Minister and Cabinet (Child Poverty Unit), The Treasury and Veterans' Affairs New Zealand have been consulted on this paper and support the proposals in this paper. The Department of the Prime Minister and Cabinet (Policy Advice Group) have also been informed of this paper.

## Communications

83 The Ministry of Social Development and Inland Revenue will develop communications strategies and work with relevant Ministers' Offices for communicating changes to the public regarding the abatement threshold increases and MFTC adjustment.

## Proactive Release

84 This Cabinet paper will be proactively released, with redactions made consistent with the Official Information Act 1982.

## Recommendations

The Minister for Social Development and Employment and the Minister of Revenue recommend that Cabinet:

*Abatement threshold increases*

1 **note** that people receiving a main benefit can earn up to a certain level of income per week (abatement threshold) before their benefit begins to reduce

2 **note** that abatement thresholds had not been adjusted for almost a decade prior to 1 April 2020, meaning the number of hours someone can work on minimum wage in a week before their benefit begins to reduce has declined over time

3 **agree** to increase the abatement thresholds on 1 April 2021 as set out below:

| Abatement threshold (what beneficiaries can earn per week before their benefit begins to abate) | From 1 April 2021 |
|---|---|
| Jobseeker Support | $160 |
| New Zealand Superannuation and Veteran's Pension with non-qualifying partner | $160 |
| Sole Parent Support, Supported Living Payment and Veteran's Pension (under 65) – Threshold One | $160 |
| Sole Parent Support, Supported Living Payment and Veteran's Pension (under 65) – Threshold Two | $250 |

4 **note** that the increases set out in recommendation 3 are in line with the Labour Party's 2020 manifesto commitment to increase abatement thresholds so that people can keep more of what they earn while on a benefit

5 **note** that a small number of people may be financially disadvantaged as a result of the abatement threshold increases on 1 April 2021, and a Transitional Assistance Payment will be provided to these people for up to 12 months

6 s 9(2)(f)(iv) [redacted]

*Adjustments to the Minimum Family Tax Credit*

7 **note** that as part of the introduction of Working for Families, on 26 April 2004 Cabinet agreed to increase the Minimum Family Tax Credit on 1 April each year by an amount sufficient to ensure that couples do not suffer a reduction in income when moving off benefit into 30 hours of paid work a week, from 1 April 2006 onwards [CAB Min (04) 13/4 refers]

8 **note** that the increases to the abatement thresholds as set out in recommendation 3 will require adjustment to the Minimum Family Tax Credit threshold for 2021/22

9 **agree** to increase the Minimum Family Tax Credit threshold for 2021/22 to $30,576

10 **note** that this recommended increase balances the trade-offs associated with increasing the Minimum Family Tax Credit, such as fiscal cost, financial incentives to work full-time and impact on the review of Working for Families

11 **note** that this increase is sufficient to ensure that all sole parents moving off benefit at 20 hours of work do not suffer a reduction in income; however, is not sufficient to ensure couples do not suffer a reduction in income when moving off benefit into 30 hours of paid work a week

*Financial recommendations*

12 **agree** to increase spending to provide for costs associated with the policy decision to increase the abatement thresholds on 1 April 2021, increase the Minimum Family Tax Credit threshold for 2021/22, additional Transitional Assistance Payment payments and for implementation and operational costs with the following impacts on the operating balance and net core Crown debt:

| | $m - increase/(decrease) | | | | |
|---|---|---|---|---|---|
| | **2020/21** | **2021/22** | **2022/23** | **2023/24** | **2024/25 & outyears** |
| Operating Balance and Net Core Crown Debt Impact | 25.451 | 107.473 | 97.050 | 90.503 | 90.503 |

| | | | | | |
|---|---|---|---|---|---|
| Operating Balance Impact Only | - | - | - | - | - |
| Net Core Crown Debt Impact Only | - | - | - | - | - |
| No Impact (Tax on Benefits) | 2.022 | 9.210 | 8.409 | 7.670 | 7.670 |
| **Total** | **27.473** | **116.683** | **105.459** | **98.173** | **98.173** |

13 **approve** the following changes to appropriations to provide for recommendation 12:

| | $m - increase/(decrease) | | | | |
|---|---|---|---|---|---|
| | **2020/21** | **2021/22** | **2022/23** | **2023/24** | **2024/25 & outyears** |
| **Vote Social Development** | | | | | |
| **Minister for Social Development and Employment** | | | | | |
| **Benefits or Related Expenses:** | | | | | |
| Childcare Assistance | (0.159) | (0.592) | (0.587) | (0.650) | (0.650) |
| Hardship Assistance | (0.541) | (2.255) | (2.051) | (1.860) | (1.860) |
| Jobseeker Support and Emergency Benefit | 11.363 | 53.520 | 48.984 | 44.855 | 44.855 |
| New Zealand Superannuation | 1.015 | 4.018 | 3.587 | 3.297 | 3.297 |
| Sole Parent Support | 2.548 | 11.523 | 10.435 | 9.277 | 9.277 |
| Supported Living Payment | 1.190 | 4.627 | 4.008 | 3.561 | 3.561 |
| Transitional Assistance | 0.080 | - | - | - | - |
| Winter Energy Payment | 0.652 | 2.477 | 3.676 | 3.620 | 3.620 |
| **Multi-Category Expenses and Capital Expenditure** | | | | | |
| Improved Employment and Social Outcomes Support MCA | | | | | |
| **Departmental Output Expenses:** | | | | | |
| Administering Income Support | 2.107 | 4.297 | - | - | - |
| (funded by revenue Crown) | | | | | |
| **Minister for Veterans** | | | | | |
| **Benefits or Related Expenses:** | | | | | |
| Veterans' Pension | 0.006 | 0.024 | 0.024 | 0.017 | 0.017 |
| **Minister of Housing** | | | | | |
| **Benefits or Related Expenses:** | | | | | |
| Accommodation Assistance | 8.498 | 36.206 | 34.542 | 33.205 | 33.205 |
| **Vote Housing and Urban Development** | | | | | |
| **Minister of Housing** | | | | | |
| **Multi-Category Expenses and Capital Expenditure** | | | | | |
| Public Housing MCA | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| **Non-Departmental Output Expenses:** | | | | | |
| Purchase of Public Housing Provision | (0.286) | (1.162) | (1.159) | (1.149) | (1.149) |
| **Total Operating** | **26.473** | **112.683** | **101.459** | **94.173** | **94.173** |

14 **note** the following changes to appropriations in accordance with subpart ME of the Income Tax Act 2007, reflecting the changed expenses described in recommendation 9 above:

| | $ million – increase / (decrease) | | | | |
|---|---|---|---|---|---|
| **Vote Revenue**<br>**Minister of Revenue** | **2020/21** | **2021/22** | **2022/23** | **2023/24** | **2024/25 & Outyears** |
| **Benefits or Related Expenses:** | | | | | |
| Minimum Family Tax Credit PLA | 1.000 | 4.000 | 4.000 | 4.000 | 4.000 |
| **Total Operating** | 1.000 | 4.000 | 4.000 | 4.000 | 4.000 |

15 **agree** that the proposed changes to appropriations for 2020/21 above be included in the 2020/21 Supplementary Estimates and that, in the interim, the increases to annual appropriations be met from Imprest Supply

16 **agree** that the operating balance and net core Crown debt impact in recommendation 12 above be charged as a pre-commitment against the Budget 2021 operating allowance

17 **agree** that any underspends with the implementation and operational costs to increase the abatement thresholds on 1 April 2021 and administer additional Transitional Assistance Payment payments as at 30 June 2021 be transferred to the 2021/22 financial year to ensure that funding is available for that purpose

18 **authorise** the Minister of Finance and the Minister for Social Development and Employment jointly to agree the final amount to be transferred as per recommendation 17, following completion of the 2020/21 audited financial statements of the Ministry of Social Development, with no impact on the operating balance and/or net core Crown debt across the forecast period

*Legislative recommendations*

19 **note** that an Order in Council and an amendment to the Veterans' Support Regulations 2014 are required to increase the abatement thresholds as set out in recommendation 3

20 **note** that, subject to Cabinet agreement, the Minister for Veterans has agreed to the Veterans' Support Regulations 2014 being amended to implement the abatement threshold increases for the Veteran's Pension

21 **agree** to an Order in Council under sections 452(1) and 452(2)(c) of the Social Security Act 2018 to increase the abatement thresholds for Jobseeker Support, Sole Parent Support, Supported Living Payment and New Zealand Superannuation

22 **agree** to amend the Veterans' Support Regulations 2014 to increase the abatement thresholds for the Veteran's Pension under section 265(1)(29A) of the Veterans' Support Act 2014

23 **note** that adjustment to the Minimum Family Tax Credit threshold for 2021/22 would need to be made via amendments to the Income Tax Act 2007

24 **agree** to amend the Income Tax Act 2007 to implement the adjustment to the Minimum Family Tax Credit threshold for 2021/22 as set out in recommendation 9

25 **agree** that the legislative amendments implementing the adjustment to the Minimum Family Tax Credit threshold for 2021/22 be included in the next available tax Bill

26 **note** that this amendment would need to be passed by March 2021 for the Minimum Family Tax Credit payments to be made at the new rate from 1 April 2021

27 **invite** the Minister of Revenue to instruct Inland Revenue to draft the necessary amendments to the Income Tax Act 2007 to give effect to the adjustment to the Minimum Family Tax Credit for 2021/22 as set out in recommendation 9.

Authorised for lodgement

Hon Carmel Sepuloni

Minister for Social Development and Employment

Hon David Parker

Minister of Revenue

## Appendix One – options for adjusting the Minimum Family Tax Credit for 2021/22

| Option | Impact | Advantages | Disadvantages |
|---|---|---|---|
| **Option 1: Increase the MFTC threshold to fully reflect benefit abatement changes.** | The MFTC threshold would increase to $32,604 p.a. (or $627 per week), which would have an ongoing fiscal cost of $12 million per annum. (Note that this increase is more than was paid out in MFTC in tax year 2020)<br><br>This full alignment is a 10.8% increase ($3,172 per annum or $61 per week) from the current threshold, a large increase relative to previous annual adjustments. | The MFTC threshold remains aligned with its policy intent.<br><br>It is expected that approximately 4,900 families would benefit under this change, approximately 1,300 of these families would be newly eligible for the MFTC. | The range over which the MFTC is available is extended, resulting in a larger range of hours worked with a 100% EMTR, further reducing incentives to work greater hours for sole parents on low/minimum wage.<br><br>The 1,300 newly eligible families would also experience a 100% EMTR meaning there is less incentive to increase hours of work.<br><br>However, these may not have a significant impact on labour supply decisions in aggregate given that much of this group already face a 100% EMTR.<br><br>Increasing the MFTC this significantly may also make future structural reform of WFF more difficult s 9(2)(f)(iv) [redacted] particularly if there is a desire to avoid people being financially disadvantaged. |
| **Option 2: Partially increase the MFTC threshold.** | The MFTC threshold would increase to $30,576 p.a. (or $588 per week), which would have an ongoing fiscal cost of $4 million per annum.<br><br>This increase is $1,144 per annum ($22 per week) from the current threshold. | This option is fiscally less costly than a full alignment.<br><br>Sole parents would remain financially better off working and receiving the MFTC than working and receiving a benefit.<br><br>s 9(2)(f)(iv) [redacted]<br><br>Increasing the MFTC threshold by a lesser amount now may make any future structural reforms of WFF slightly less costly.<br><br>It is expected that approximately 4,000 families would benefit under this change, approximately 400 of these families would be newly eligible for the MFTC. | The MFTC threshold is not fully aligned with its policy intent.<br><br>This means that couples could be theoretically better off working and receiving a main benefit, however, few couples are likely to qualify for a benefit if one person is working 30 hours a week. This is due to the '30-hour rule' where a person (or couple) are not eligible for Jobseeker Support if they are working full-time (defined as 30 hours a week).<br><br>MFTC recipients gain less than how much they would gain through a full adjustment of the MFTC.<br><br>The range over which the MFTC is available is extended, resulting in a larger range of hours worked with a 100% EMTR, reducing incentives to work greater hours for sole parents on low/minimum wage (but not as much as a full adjustment).<br><br>However, these may not have a significant impact on labour supply decisions in aggregate given that much of this group already face an 100% EMTR. |
| **Option 3: Do not adjust the MFTC threshold.** | The MFTC threshold would remain at $29,432 p.a. (or $566 per week).<br><br>This could have a net fiscal cost arising from the increase to benefit expenditure as families move on to benefit. We estimate this is likely to be small. | s 9(2)(f)(iv) [redacted]<br><br>Not increasing the MFTC threshold now may make any future structural reforms of WFF slightly less costly.<br><br>This option also has the lowest fiscal cost, which would allow funding to be directed to other priorities. | The MFTC threshold is no longer aligned with its policy intent and therefore some MFTC families may be financially better off working and receiving a benefit than working and receiving the MFTC, depending on the number of hours they work.<br><br>As a result, there may be a small increase in the number of families receiving a benefit and a consequential fiscal impact, but this cost would be partially offset by the reduction of MFTC (as families would no longer receive the MFTC).<br><br>This change would also result in confusion of when a person would be better off working and receiving a benefit or working and receiving the MFTC. This would be very challenging for customers to understand and for staff to communicate. |

# Coversheet: Increasing main benefit abatement thresholds on 1 April 2021 and consequential adjustments to the Minimum Family Tax Credit

| | |
|---|---|
| Advising agencies | *Ministry of Social Development and Inland Revenue* |
| Decision sought | *Agreement to increase main benefit abatement thresholds on 1 April 2021 and consequentially adjust the Minimum Family Tax Credit for 2020/21 and 2021/22.*<br><br>*Note that on 30 November 2020, Cabinet agreed to adjust the Minimum Family Tax Credit for 2020/21 [CAB-20-MIN-0490 refers]. However, a Regulatory Impact Assessment could not be undertaken due to time constraints. Under Cabinet's regulatory impact analysis requirements, this document is:*<br>- *the Supplementary Analysis Report for the adjustment to the Minimum Family Tax Credit for 2020/21; and*<br>- *the Regulatory Impact Assessment for the abatement threshold increases and the adjustment to the Minimum Family Tax Credit for 2021/22.* |
| Proposing Ministers | *Minister for Social Development and Employment*<br>*Minister of Revenue* |

## Summary: Problem and Proposed Approach

**Problem Definition**

**What problem or opportunity does this proposal seek to address? Why is Government intervention required?**

***The current abatement thresholds provide limited work incentives for beneficiaries***

The amount that beneficiaries can earn before their benefit reduces has declined substantially over time as benefit abatement thresholds have not been increased in line with wage growth. This has reduced financial incentives to enter the labour market and to work part-time for people receiving benefits. For example, a person receiving Jobseeker Support in 1997 could work around 11.4 hours on minimum wage before their benefit abated; in 2019, this has reduced to around 4.5 hours on minimum wage.

***There are trade-offs in making consequential adjustments to the Minimum Family Tax Credit***

Under current policy, the Minimum Family Tax Credit (MFTC) thresholds are adjusted annually to account for changes to relevant settings, such as changes to benefit rates, abatement thresholds and the minimum wage.

The MFTC threshold for 2020/21 was not adjusted to reflect the $25 benefit rate increase made on 1 April 2020 in response to COVID-19 due to time constraints at the time. This has resulted in the current MFTC threshold being misaligned with the current benefit rate.

Increasing main benefit abatement thresholds on 1 April 2021 has flow-on implications for the MFTC threshold in 2021/22 and subsequent tax years. To maintain financial incentives provided by the MFTC for families with children to enter work, the MFTC threshold for 2021/22 requires adjustments alongside abatement threshold increases under current policy. However, given the proposed increases to the abatement thresholds are significant, the adjustment required for the MFTC to align would be much higher than previous adjustments. This may exacerbate known issues with the MFTC, mainly reducing financial incentive for sole parents to work more than the minimum hours required. It may also increase the cost of options s 9(2)(f)(iv) [redacted] in the upcoming review of Working for Families.

**Summary of Preferred Option or Conclusion (if no preferred option)**

**How will the agency's preferred approach work to bring about the desired change? Why is this the preferred option? Why is it feasible? Is the preferred approach likely to be reflected in the Cabinet paper?**

***Abatement threshold increases will improve financial work incentives***

Increasing benefit abatement thresholds to $160 and $250 per week increases the number of hours a beneficiary can work before their benefit begins to reduce. This will improve the financial incentives to enter the labour market and work part-time for people receiving benefits. Part-time work can provide a pathway to full-time work by providing opportunities to connect with the labour market, get work experience and become familiar with the demands that can come with employment.

***There are different agency views on making adjustments to the Minimum Family Tax Credit***

Under current policy, changes to benefit settings would lead to an adjustment of the MFTC threshold to ensure the financial work incentives provided by the MFTC are maintained. However, given the extent of the recent and proposed benefit changes, full adjustment of the MFTC incurs significant fiscal costs. Additionally, a significant increase to the MFTC threshold may increase the cost of options s 9(2)(f)(iv) [redacted] as part of the upcoming review of Working for Families (WFF).

*2020/21 MFTC threshold adjustment*

Retrospectively adjusting the 2020/21 MFTC threshold to reflect the increases to main benefits that came into effect on 1 April 2020 means the work incentives provided by the MFTC will be maintained for the 2020/21 tax year. This ensures that low-income families with children (both sole parents and two parent families) are better off in work and receiving the MFTC than working and receiving the benefit.

Note that on 30 November 2020, Cabinet agreed to retrospectively increase the 2020/21 MFTC threshold to $29,432 from 1 April 2020 to reflect the increases to main benefits that came into effect on 1 April 2020 [CAB-20-MIN-0490 refers].

*2021/22 MFTC threshold adjustment*

Inland Revenue (IR), Ministry of Social Development (MSD) and the Treasury have differing views on the most appropriate options relating to the alignment of the MFTC threshold:

- MSD prefers the partial prospective alignment option. **This is the proposed option in the Cabinet paper.** MSD considers that a partial prospective alignment maintains the work incentives MFTC provides to the majority of MFTC recipients (ie, sole parents), but at a significantly lower fiscal cost than full alignment. MSD notes that fully aligning the MFTC threshold may exacerbate existing MFTC issues such as high Effective Marginal Tax Rates (EMTRs)[1]. MSD considers partially aligning the MFTC threshold would increase the cost of options s 9(2)(f)(iv) [redacted] as part of the upcoming WFF review, particularly if there is a desire to avoid people being financially disadvantaged by future changes. However, these effects will be less than under full alignment.

- IR prefers the full prospective alignment option. Although the fiscal cost of full alignment is greater than under other options, IR considers it necessary to maintain the work incentives provided by the MFTC, ensuring low-income families with children (both sole parents and two parent families) are better off in work and receiving the MFTC than working and receiving the benefit. IR does not consider the potential effects of aligning the MFTC threshold on any future WFF review to be a significant enough issue to warrant reducing the work incentives currently provided by the MFTC.

- In advice to Ministers, the Treasury recommended the no prospective alignment option due to the tight fiscal environment. The Treasury also did not consider that the policy decision [to align the MFTC threshold with benefit rates] meets the threshold to be progressed as a Budget pre-commitment. While the Treasury acknowledged that it was likely to introduce greater complexity for clients, the Treasury did not agree that these adverse effects were sufficient to justify funding the initiative ahead of the Budget process given the tight fiscal environment. [redacted] s 9(2)(f)(iv) [redacted]

## Section B: Summary Impacts: Benefits and costs

**Who are the main expected beneficiaries and what is the nature of the expected benefit?**

*Monetised and non-monetised benefits*

***Beneficiaries working part-time and non-beneficiary recipients of the Accommodation Supplement gain from abatement threshold increases***

The main people to gain are beneficiaries working part-time and non-beneficiary recipients of the Accommodation Supplement (these are low to middle-income working families). MSD estimates that around 82,900 individuals and families will gain an average of $18 per

[1] Effective Marginal Tax Rate shows how a dollar increase in gross income translates to an increase in income in hand (after taxation and the reduction of income-tested assistance).

week in extra income support payments as a result of increasing benefit abatement thresholds.

Non-monetised benefits include:

- Improved financial incentives to enter the labour market and work part-time for people receiving benefits
- A modest reduction in the number of children in poverty (it is estimated that the proposed increases to the abatement thresholds will reduce child poverty by around 6,000 (+/- 3,000) on the AHC50 fixed line measure[2] and 2,000 (+/- 3,000) on the BHC50 measure[3] in 2021/22), and
- Broader improvements in health and wellbeing where eligible people are engaged in work (provided the work is safe, stable and financially beneficial).

***MFTC recipients and newly eligible recipients will gain from the adjustments to the Minimum Family Tax Credit***

<u>Retrospective change – increasing the 2020/21 MFTC threshold to reflect the $25 benefit rate increase on 1 April 2020</u>

Approximately 3,200 families receiving the MFTC in the 2020/21 tax year would gain an additional $32 for each week they received the MFTC. The maximum MFTC increase a family could receive would be $1,664 ($32 x 52 weeks). However, it is estimated that the average MFTC increase for the year would be approximately $1,280 per family. Approximately 400 additional families would become newly eligible for the MFTC in the 2020/2021 tax year as a result of the threshold increase. Because newly eligible families will have incomes above the current threshold, the average increase for these families will be less than $32 a week.

A full retrospective increase will also maintain financial incentives for families to move off benefit and into work for the remainder of the 2020/21 tax year. It also addresses the potential equity issue whereby some families who remained off benefit and in work following the benefit rate increase on 1 April 2020 are financially disadvantaged relative to those who are on benefit.

<u>Prospective change – partially increasing the 2021/22 MFTC threshold</u>

Approximately 4,000 families are expected to receive the MFTC in the 2021/22 tax year. Of these, around 400 families would be newly eligible to the MFTC. Families would gain an additional $22 for each week they receive the MFTC. The maximum MFTC increase a family could receive in the 2021/22 tax year would be $1,144 ($22 x 52 weeks). However, because not all families will receive the MFTC for ever week of the tax year, the average MFTC increase is estimated to be less than $1,144.

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[2] AHC50 measures the number of children in households with incomes much lower than a typical 2018 household, after they pay for housing costs, and is measured by the threshold line set at 50 per cent of the median income in 2017/18, after housing costs are removed.

[3] BHC50 is a moving-line income measure, with the poverty threshold taken the year the data is gathered (low income, before housing costs – moving-line measure). BHC50 measures the number of children in households with much lower incomes than a typical household, and is measured by the threshold line set at 50 per cent of the median household income in the year measured.

A partial increase of the MFTC threshold ensures that sole parents, who make up around 90 percent of the MFTC recipients, continue to be financially better off working and receiving the MFTC than working and receiving a benefit.

**Where do the costs fall?**

*Monetised and non-monetised costs; for example to local government or regulated parties*

***Abatement threshold increases are primarily a cost to the Government***

The cost to the Government of increasing benefit abatement thresholds is $387.496 million in income support payments and $6.4 million in operating costs over the forecast period. There is an additional cost of $80,000 for 12 months for providing a Transitional Assistance Payment (TAP) to people who may be financially disadvantaged as a result of the abatement threshold increases on 1 April 2021.

Non-monetised costs include a small reduction in financial incentives to work full-time for some beneficiaries.

***Adjustments to the Minimum Family Tax Credit are primarily a cost to the Government***

<u>Retrospective change – increasing the 2020/21 MFTC threshold to reflect the $25 benefit rate increase on 1 April 2020</u>

The cost to the Government of increasing the 2020/21 MFTC threshold is $4.6 million for the 2020/21 tax year and $24.1 million for the forecast period.

<u>Prospective change – partially increasing the 2021/22 MFTC threshold</u>

The cost to the Government of partially increasing the 2021/22 MFTC threshold is $17 million over the forecast period, assuming the retrospective increase is agreed to.

The financial work incentives provided by the MFTC would be reduced for two-parent families (approximately 10 percent of MFTC recipients) as they would theoretically be better off working and receiving a main benefit than working and receiving the MFTC. There may be a small net fiscal cost to the Government from two-parent families moving onto a benefit. This net fiscal cost has not been calculated due to time constraints. The behavioural impacts are uncertain.

**What are the likely risks and unintended impacts? How significant are they and how will they be minimised or mitigated?**

***Abatement threshold increases may financially disadvantage a small number of people but a Transitional Assistance Payment can be provided***

Increasing benefit abatement thresholds will mean that a small number of people will be financially disadvantaged due to complex interactions in the income support system. TAP, a temporary non-taxable payment, is proposed to be available for up to 12 months for the small number of people who may be financially disadvantaged on 1 April 2021 as a result of the abatement threshold increases.

***Retrospective and prospective adjustments to the Minimum Family Tax Credit each have unintended impacts***

A retrospective increase (paid in lump sum for the portion of the year for which payments have already been made) may lead to debts being created for some people as the MFTC is chargeable income for some types of financial assistance paid under the Social Security Act 2018 (such as Temporary Additional Support). It is also assessable income for Public Housing purposes, for assessing eligibility and calculating the rate of Income Related Rent. While this does lead to debts for some clients, these debts are usually less than the value of the lump-sum payment (so clients are still better off overall) and it reflects the appropriate consideration of these payments as income for these families.

The prospective partial increase means that the MFTC would not be fully aligned with its policy intent and some two-parent families may be better off working and receiving a main benefit than working and receiving the MFTC. However, few couples are likely to qualify for a benefit if one person is working 30 hours a week as this is considered working full-time under the Social Security Act 2018[4].

## Section C: Evidence certainty and quality assurance

| **Agency rating of evidence certainty?** |
| --- |
| *How confident are you of the evidence base?* |
| MSD is confident that increasing benefit abatement thresholds will directly increase incomes for beneficiaries working part-time and low to middle-income working families receiving the Accommodation Supplement. Holding all else equal, MSD is also confident that these increases are likely to modestly reduce child poverty.<br><br>The evidence base on financial incentives to work (for both abatement threshold increase and MFTC) indicates that financial incentives are only one of many factors that influence people's decisions on whether to work and how much to work and they are not usually the most important factor. However, empirical evidence suggests small but statistically significant impacts on labour market participation and intensity from changes in financial incentives to work, with larger impacts for some groups compared to others.[5] The modelling of the increases to benefit abatement thresholds and the MFTC assumes no behavioural impacts, i.e. no increases in labour market participation or hours worked, as these impacts are likely to be modest and are difficult to quantify.<br><br>While increasing financial incentives to work part-time, the changes also reduce financial incentives to work full-time for some. Again, this impact has not been quantified. There is reasonably strong evidence that suitable work has broader positive impacts on wellbeing[6], |

[4] This is due to the '30-hour rule', where a person (or couple) are not eligible for Jobseeker Support if they are working full-time (defined as 30 hours a week).

[5] Kostøl, A, & Mogstad, M. (2012) How Financial Incentives Induce Disability Insurance Recipients to Return to Work. IZA Discussion Paper No. 6702 (http://ftp.iza.org/dp6702.pdf);

Card, David E., (2000) Reforming the Financial Incentives of the Welfare System. IZA Discussion Paper No. 172.

[6] The Royal Australasian College of Physicians and the Australasian Faculty of Occupational and Environmental Medicine (2015) Realising the health benefits of work – An evidence update. (https://www.racp.edu.au/docs/default-source/advocacy-library/pa-health-benefits-of-work-evidence-update.pdf?sfvrsn=4 )

Waddell, G., Burton, A.K. (2006) *Is Work Good For Your Health And Well-Being?* TSO, London but given the difficulty of modelling any increases in labour market participation or hours of work there has been no attempt to quantify these broader impacts.

*To be completed by quality assurers:*

| Quality Assurance Reviewing Agency: |
|---|
| The reviewing agencies were:<br>- Ministry of Social Development<br>- Inland Revenue |
| **Quality Assurance Assessment:** |
| The Quality Assurance reviewers at Inland Revenue and Ministry of Social Development have reviewed the *Increasing main benefit abatement thresholds on 1 April 2021 and consequential adjustments to the Minimum Family Tax Credit* RIA and considers that the information and analysis summarised in it **partially meets** the quality criteria of the Regulatory Impact Analysis framework. |
| **Reviewer Comments and Recommendations:** |
| It partially meets the quality criteria for the following reasons:<br>• There has been no analysis of the behavioural impacts. This is understandable given the timeframes and difficulties undertaking this analysis. However, the abatement thresholds and the MFTC are intended to encourage people to engage in work. Ideally, RIA would include an estimate of how many people will move into work as a result of the changes. The team notes the employment impacts will be monitored following implementation.<br>• There is minimal discussion of alternative options to the abatement threshold increases, such as the staged increases committed to by the Government as part of Budget 2019. However, the Treasury RIA team advised MSD that a full RIA for the abatement threshold increases was not required because the increases were a manifesto commitment.<br>• In terms of the MFTC, the status quo is based on a long-established policy of full alignment of the MFTC with benefit changes. There are now differing views on the appropriateness of this automatic linkage when there are significant increases in benefit entitlements and the case for change does not adequately consider the impact on the identified group of people who would be relatively worse off if the MFTC is not increased. Moreover, the analysis relies on certain assumptions about the fiscal cost, which could benefit from further explanation, such as the degree of behavioural response that could lead individuals to shift from paid employment with MFTC to paid employment with welfare support. The behavioural responses are uncertain. The team notes the employment impacts will be monitored following implementation.<br>• We note that the options have administrative implications but there is little discussion of the impacts, for example from backdating MFTC payments. |

Curnock E, Leyland AH, Popham F. (2016) The impact on health of employment and welfare transitions for those receiving out-of-work disability benefits in the UK. *Soc Sci Med*. Aug;162:1-10. doi: 10.1016/j.socscimed.2016.05.042.

OECD (2015) *Fit Mind, Fit Job: From Evidence to Practice in Mental Health and Work*. OECD Publishing, 1–178. http://doi.org/10.1787/9789264228283-en

- Consultation with stakeholders – beyond government departments – has not happened due to time constraints and budget sensitivities.

The team recommends MSD and IR monitor the behavioural outcomes of the changes, especially the employment outcomes.

# Impact Statement: Increasing main benefit abatement thresholds on 1 April 2021 and consequential adjustments to the Minimum Family Tax Credit

## Section 1: General information

| 1.1 Purpose |
|---|
| Ministry of Social Development (MSD) and Inland Revenue (IR) are solely responsible for the analysis and advice set out in this Regulatory Impact Statement, except as otherwise explicitly indicated.<br><br>This analysis and advice have been produced for the purpose of informing final decisions to be taken by Cabinet in relation to increasing the abatement thresholds and consequential adjustments to the Minimum Family Tax Credit (MFTC). |

### 1.2 Key Limitations or Constraints on Analysis

Limitations and constraints on the analysis in this document include:

- The Labour Party committed to increasing the thresholds to $160 and $250 per week from 1 April 2021 in its 2020 manifesto commitment. Therefore, other options have been ruled out, such as increasing the thresholds by a different amount, or changes to the abatement rates. (It should be noted that abatement rate changes would also have similar trade-offs that apply, and it would be harder to communicate the changes, which means it would be harder to influence people's behaviour in the direction intended).
- Other options that have been ruled out due to time constraints include extending a part-time abatement regime to Jobseeker Support on the grounds of a health condition, injury or disability to more closely match their work obligations.
- s 9(2)(f)(iv) [redacted]
- The modelling results for abatement threshold increases are scaled according to the Pre-election Economic and Fiscal Update 2020 recipient and expenditure forecasts.
- The estimates of the impact of the newly eligible for abatement threshold increases are created based off existing work done in the Integrated Data Infrastructure (IDI). However, there is high uncertainty around these numbers.
- Impacts of abatement threshold increases on Special Needs Grants and recoverable assistance have not been modelled. It is expected that the number of these could modestly decrease, but there is a considerable amount of uncertainty.
- Behavioural impacts (ie, increases in labour market participation or hours worked) have not been modelled as there are various factors that influence a person's work choices and they are difficult to quantify.

- Analysis in this document has been carried out under tight time constraints.
- No consultation (beyond other Government agencies) has taken place as the proposed increases to the abatement thresholds is a Manifesto commitment and the Government's consideration of the proposed changes in this RIA is Budget Sensitive.

**1.3 Responsible Managers:**

| | |
|---|---|
| s 9(2)(a)<br>[redacted]<br>Income Support Policy<br>Welfare System and Income Support Policy<br>Ministry of Social Development<br>3 December 2020 | s 9(2)(a)<br>[redacted]<br>Families and Individuals<br>Policy and Strategy<br>Inland Revenue<br>3 December 2020 |

# Section 2: Problem definition and objectives

## 2.1 What is the current state within which action is proposed?

**The welfare system is structured to assist those most in need and encourage paid work where possible**

New Zealand's welfare system is designed to target people who are unable to fully support themselves through paid work. Almost all income support in New Zealand is targeted on the basis of family income (and family assets), with the family defined as the nuclear family (i.e. adults and any dependent children). Income and asset tests are determined by a combination of the abatement settings of payments (how fast they are reduced) and the rates of the benefit payments. Generally, the full rate of a payment will be available to people earning up to a certain amount (known as the abatement threshold). Above this amount, payments reduce (abate) as people's incomes increase.

**The welfare overhaul involves a range of changes including changes to abatement thresholds and Working for Families tax credits**

The Welfare Expert Advisory Group (WEAG), in its report *Whakamana Tāngata*, proposed a comprehensive package of substantial changes to income support, while broadly maintaining the existing structure of income support. The WEAG package emphasised improving income adequacy and simplifying and rationalising the purpose of particular payments. The WEAG recommended that abatement thresholds for main benefits be increased to $150 and $250 per week.

In 2019, Cabinet agreed to overhaul the welfare system to achieve its vision for a system that ensures people have an adequate income and standard of living, are treated with respect, can live in dignity, and are able to participate meaningfully in their communities [CAB-19-MIN-0578 refers]. On 6 November 2019, Cabinet endorsed a high-level short, medium, and long-term work programme to achieve this vision, but did not detail when work would be progressed.

As part of the welfare overhaul work programme, the Government also agreed to a review of Working for Families (WFF) tax credits, including the MFTC.

**COVID-19 has caused significant economic disruption in New Zealand**

COVID-19 has caused major economic disruption in New Zealand and globally. With great uncertainty in the economy and with extended border closures, unemployment is forecast to rise, peaking at 7.8 percent in the March 2022 quarter.

As a result of the weaker economic outlook, beneficiary numbers are forecast to increase. In October 2020, 369,860 people were receiving a main benefit, at 11.8 percent of the estimated New Zealand working-age population. This is 69,623 more than October 2019. Of the 369,860 receiving a main benefit, 203,371 were Jobseeker Support recipients (6.5 percent of the working-age population), which is 61,241 more than October 2019. The number of people on a benefit is expected to peak in May 2021 at around 443,000, with another peak later in January 2022 reaching around 453,800.

The economic impacts of COVID-19 are expected to disproportionally impact Māori, Pacific people, disabled people (including people with health conditions) and sole parents, who are more likely to be employed in areas affected by job losses and have additional barriers to accessing employment. COVID-19 will certainly increase poverty and hardship rates, although it is too soon to estimate the size of these impacts. The sudden loss of all employment income, or reduced employment income, can tip many families into financial hardship, especially if they have limited cash or near-cash assets to maintain existing commitments (e.g. rent, mortgage and consumer debt).

**Government's response to COVID-19**

As part of the Government's response to COVID-19, on 1 April 2020, main benefit rates increased by $25 per week. The Winter Energy Payment (WEP), which is paid from 1 May to 1 October each year, was doubled for the 2020 winter period.

Along with work to minimise hardship for families, the Government has introduced a range of initiatives aimed at boosting employment for those who have lost jobs due to COVID-19.

**Labour Party's 2020 manifesto commitment**

The Labour Party's 2020 manifesto committed to:

- increase abatement thresholds to $160 and $250 per week from 1 April 2021;
- progressively increase the abatement threshold year on year in line with minimum wage increases; and
- continue with the welfare overhaul work and to implement WEAG's recommendations to improve the welfare system.

## 2.2 What regulatory system(s) are already in place?

**Benefit abatement thresholds allow people to work some hours while on benefit**

New Zealand's welfare system is designed to assist people who are unable to fully support themselves through paid work. Assistance is targeted through the eligibility criteria[7] and the benefit abatement regime, which gradually reduces payments that people receive as their other income increases.

Generally, the full rate of payment will be available to people earning up to a certain amount; this is the abatement threshold. Above this amount, payments abate as people's other income increases, but payment can abate in different ways and at different rates based on the type of benefit payment. The abatement rules, along with the benefit rate, determine the benefit cut-out point, which is the amount of income at which a benefit is reduced to zero.

The abatement threshold allows people to work for a small number of hours without having their benefit payment affected and is seen as a way to encourage labour market entry. It is also intended to recognise that there are additional costs associated with work, such as transport costs.

[7] Social assistance payments are typically means-tested, and eligibility is based on family rather than individual income.

Currently there are two main abatement regimes within the welfare system, which seek to align the financial incentives to work with the level of labour force engagement expected of the individual:

- ***a part-time regime*** has two abatement thresholds, with a relatively low abatement rate of 30 percent applied at the first threshold, and an abatement rate of 70 percent applied at the second threshold. This is designed to incentivise part-time work and applies to people receiving Sole Parent Support (SPS) and Supported Living Payment (SLP), as well as to those under 65 receiving the Veteran's Pension (VP). The assumption is that part-time work is often the best option for recipients of these payments.
- ***a full-time regime*** has a relatively high abatement rate of 70% which is designed to incentivise full-time work. This mainly applies to people on Jobseeker Support (JS)-related benefits, as well as Non-Qualifying Partners (NQP) of New Zealand Superannuation (NZS) and VP recipients. The assumption is that people receiving these benefits are able to undertake full-time work where it is available.

The current abatement thresholds and rates are set out below:

| **Abatement rate at different thresholds** | **Current amount beneficiaries can earn per week before their benefit begins to abate** |
|---|---|
| JS (abatement rate of 70%) | $90 |
| NZS/VP with non-qualifying partner (abatement rate of 70%) | $115 |
| SPS, SLP and VP (under 65) – Threshold One (abatement rate of 30%) | $115 |
| SPS, SLP and VP (under 65) – Threshold Two (abatement rate of 70%) | $215 |

Under the current settings, a JS recipient would have their benefit reduce by 70 cents for every dollar earned over $90. For a SPS recipient, their benefit would reduce by 30 cents for every dollar earned over $115, and by 70 cents for every dollar earned over $215.

**The Minimum Family Tax Credit incentivises families with children to move off benefit and into greater amounts of work**

The MFTC is one of the WFF tax credits. The MFTC aims to incentivise families with children (in particular, sole parents) to move off benefit and into greater amounts of paid work[8] by ensuring people who move from working and receiving a main benefit into working and receiving the MFTC are not financially worse off from doing so. This is done by "topping-up" families' earned income to a prescribed level (the MFTC threshold) that means they are financially better off by working a greater amount and receiving the MFTC than working and receiving a benefit. This effectively creates a guaranteed income for families, above what they would receive if they were on a benefit. Around 90 percent of MFTC recipients are sole parent families.

[8] Families with children qualify for the MFTC when they work 20 hours of more per week for sole parents, and 30 hours or more for couples.

The MFTC abates at 100 percent for every dollar earned over the MFTC threshold. This means that for every dollar a family earns over the prescribed amount, their MFTC entitlement reduces by one dollar.

The MFTC threshold, as at 30 November 2020, is $27,768 per year (after tax). This is $534 per week. Approximately 3,800 families were paid nearly $12 million in the 2020/21 tax year. The average MFTC payment amount was $3,100 per family. IR forecasts that there will be a decrease to approximately 3,200 families in the 2021/22 tax year.[9]

As part of the introduction of WFF, on 26 April 2004, Cabinet agreed to increase the MFTC on 1 April each year by an amount sufficient to ensure that couples do not suffer a reduction in income when moving off benefit into 30 hours of paid work a week, from 1 April 2006 onwards [CAB Min (04) 13/4 refers]. Consequently, the MFTC threshold has been increased each year since 2006 to reflect the latest changes to relevant settings (such as benefit rates, the minimum wage and abatement thresholds).

The MFTC threshold is set by calculating the total income a two-parent family could receive if they were working less than 30 hours and receiving an abated main benefit (the couple rate for Jobseeker Support) and the Winter Energy Payment. This amount is then increased by $1 and rounded up to the next multiple of $52 (as expressed for the weeks in the year). Sole parents face the same MFTC threshold as two-parent families. As the sole parent benefit is lower than the couple rate of Jobseeker Support, this means that sole parents gain significantly more than two-parent families by moving onto the MFTC.

**Roles of government agencies**

The Ministry of Social Development administers and provides information on financial assistance, employment and housing. MSD's role includes paying financial assistance, providing support for getting people into and maintaining employment and housing.

Inland Revenue administers New Zealand's tax system, collecting Crown revenue, as well as collecting and distributing social support programme payments, such as WFF tax credits.

[9] Some reasons for the decrease in tax year 2021 could be due to the impacts of Covid-19 on employment, or the increase in main benefit payments and temporary doubling of the Winter Energy Payment from 1 April 2020. The latter changes have made the financial incentives to stay on benefit higher.

## 2.3 What is the policy problem or opportunity?

**Abatement thresholds have become out of line with their original settings and offer little financial incentive to enter the labour market or work part-time**

Abatement thresholds are increased through one-off changes, rather than being adjusted annually. On 1 April 2020, the abatement thresholds were adjusted through funding secured through Budget 2019. This funding committed to progressively increase the abatement thresholds for main benefits over four years (until 2023, as set out in the below table) in line with minimum wage increases [CAB-19-MIN-0174.36 refers]. The adjustment aimed to ensure that the number of hours a beneficiary could work on minimum wage before abatement began would not reduce any further.

| Abatement threshold for: | Prior to April 2020 | 1 April 2020 | 1 April 2021 | 1 April 2022 | 1 April 2023 |
|---|---|---|---|---|---|
| Jobseeker Support | $80 | $90 | $95 | $100 | $105 |
| NZS/VP non-qualifying partner | $100 | $115 | $120 | $125 | $130 |
| SPS and SLP – Threshold One | $100 | $115 | $120 | $125 | $130 |
| SPS and SLP – Threshold Two | $200 | $215 | $220 | $225 | $230 |

However, prior to the April 2020 adjustment, the last adjustment to main benefit abatement settings occurred in September 2010, when changes were made for recipients of (what was then known as) Domestic Purposes Benefit, Invalid's Benefit, Widow's Benefit as well as for VP (under 65), and NZS and VP with non-qualifying partners. For the full-time abatement regime for JS, the threshold had remained at $80 since it was last adjusted in 1996.

This has meant that the amount that people could earn before their benefit abated has declined in real terms over time as wages have increased, particularly for JS recipients. For example, a person receiving JS in 1997 could work approximately 11.4 hours on minimum wage ($7.00 per hour) before their benefit abated. In 2019, a person receiving JS could only work for approximately 4.5 hours on minimum wage ($17.70 per hour) before their benefit abated. The current settings, despite the adjustments made in April 2020 and subsequent increases set through till 2023, have moved out of line with the original abatement settings and now offer little financial incentive for people to engage in paid work while receiving a main benefit.

**The MFTC was not adjusted following COVID-19 related benefit increases**

On 1 April 2020, as part of the previous Government's response to COVID-19, main benefit rates were increased by $25 per week. The Winter Energy Payment was also temporarily doubled for the 2020 winter period.

Under normal circumstances, a consequential increase in the MFTC threshold would likely have been made at the same time. However, the urgent pace at which these benefit changes occurred meant that no decision to change the MFTC threshold was made. This has resulted in the current MFTC threshold being misaligned with the current benefit rate. Under current policy, the MFTC threshold should be increased to account for the increase in benefit rates.

**Proposed increases to the abatement thresholds on 1 April 2021 will also require an increase to the MFTC threshold under current policy**

Increasing the abatement thresholds on 1 April 2021 (as per the Labour Party's 2020 manifesto commitment) has flow-on implications for the MFTC threshold. Under current policy, a consequential increase to the 2021/22 MFTC threshold would be made to reflect the changes to the abatement thresholds.

If the MFTC threshold does not maintain alignment with the benefit abatement thresholds, this will be inconsistent with the policy intent of the MFTC, that is, to provide a financial incentive to work a greater amount and move off benefit and on to the MFTC. The greater the misalignment of the MFTC threshold and benefits, and the longer the misalignment continues, the greater the impact on the incentives for low income families with children to leave the benefit and work a greater amount and receive the MFTC.

There is also a potential equity issue in that not fully aligning the MFTC threshold financially disadvantages those families who remain off benefit (relative to those who are on benefit). If benefit settings are intended to reflect a minimum level of income for beneficiaries, then implicitly, the guaranteed minimum income provided to working and off-benefit families (via the MFTC) should be at least the same.

**The MFTC provides little to no incentive for sole parents to work more than 20 hours a week while receiving the MFTC**

The proposed increases to the abatement thresholds on 1 April 2021 are significant, which would require the 2021/22 MFTC threshold adjustment to be much greater than its previous adjustments. This may further exacerbate known issues with the MFTC, mainly that the MFTC provides little to no financial incentive for sole parents to work more than the minimum required hours (20 hours a week) while receiving the MFTC. This is because income earned over the MFTC threshold would reduce the MFTC payment dollar for dollar. This is known as a 100 percent effective marginal tax rate (EMTR); high EMTRs indicate low financial incentives to work.

A significant adjustment to the MFTC threshold would further reward working the minimum number of hours required for the MFTC at the expense of working more than this. This is because the adjustment would mean the income range over which the MFTC is available would be extended, resulting in a larger range of hours worked with a 100 percent EMTR and further reduction in incentives to work greater hours for sole parents on low/minimum wage. For example:

- Fully adjusting the MFTC increases the gain that sole parents receive by moving from working and receiving the benefit to working and receiving the MFTC to around $125 a week; but reduces the gain from increasing work hours from 20 to 40 hours a week to around $20 a week.[10]
- Partially adjusting the MFTC increases the gain that sole parents receive by moving from working and receiving the benefit to working and receiving the MFTC

[10] This calculation is for a sole-parent family with two children (aged 3 and 5) earning the minimum wage ($20 per hour) when working, living in Auckland, paying lower quartile rent and receiving the Accommodation Supplement, Temporary Additional Support and relevant tax credits. It does not take into account childcare costs.

to around $85 a week; but reduces the gain from increasing work hours from 20 to 40 hours a week to around $60 a week. [11]

While working 20 hours a week may be desirable for many sole parents due to their caregiving responsibilities and financial incentives being just one of the reasons for labour supply decisions, disincentivising sole parents from working more than 20 hours per week (or taking up higher wage work) may impact on their longer-term labour market trajectories and lifetime earnings. It is important to note that there is also robust evidence to show that the gap between “in work” income and “out of work” income is a stronger driver of behaviour than the incentive to increase work by an additional hour. A significant adjustment in the MFTC would result in a larger gap between “in work” income and “out of work” income (at 20 hours for sole parents and 30 hours for couples) and would potentially provide a stronger financial incentive to go from not working to working the minimum number of hours for the MFTC than partial or no adjustment options.

**There is an upcoming review of Working for Families, which includes the MFTC**

A review of WFF is planned for 2021, s 9(2)(f)(iv) [redacted] This means that any significant adjustments to the current MFTC threshold would likely increase the cost of options for reform. This is largely due to:

- the significant gain that sole parents receive by moving from working and receiving a benefit to working and receiving the MFTC – currently around $60 a week (for no extra hours of work)
- the likely need to ensure that options for reform do not financially disadvantage low-income working sole parents, as this would be likely to be seen as contrary to the Government’s vision for the welfare system, particularly given its focus on improving income adequacy and reducing child poverty.

s 9(2)(f)(iv) [redacted] any significant adjustment to the MFTC threshold would increase the gain that sole parents currently receive by moving onto the MFTC s 9(2)(f)(iv) [redacted]

[11] As above.

[12] Earning minimum wage and therefore, eligible for the maximum amount of the MFTC.

## 2.4 What do stakeholders think about the problem?

**No explicit consultation on these changes beyond Government agencies has taken place**

No consultation (beyond other Government agencies) has taken place as the proposed increases to the abatement thresholds is a Manifesto commitment and the Government's consideration of the proposed changes in this RIA is Budget Sensitive.

MSD, IR and the Treasury's views on the adjustments to the MFTC thresholds are set out in Section 5.1.

**However, the Welfare Expert Advisory Group informed our analysis**

The proposed approach for abatement threshold changes has been informed by the findings of the WEAG, which in turn was informed by the views of stakeholders and those who took part in the engagement process.

The WEAG conducted wide consultation with a variety of groups across New Zealand. This included face to face meetings with more than 1,300 individuals and organisations (such as people receiving welfare payments, employers, service providers, advocates, and community workers), 1,348 written submissions, and additional submissions through online engagement.

In February 2019, the WEAG published its report *Whakamana Tāngata,* which noted that the income support system needs to encourage the outcomes of good and appropriate work by ensuring people are financially better off in paid work.

One element of making work pay is ensuring that abatement settings are reasonable, especially at the point when people are entering work. The WEAG recommended that the abatement thresholds for main benefits be increased to $150 and $250 per week.

The WEAG also recommended substantial changes to WFF and other tax credits to improve the adequacy of incomes and returns from paid work for families with children. This included a recommendation to replace the MFTC, In-Work Tax Credit and Independent Earner Tax Credit with a new Earned Income Tax Credit.

## 2.5 What are the objectives sought in relation to the identified problem?

Three primary objectives to consider are:

- Improve income adequacy for beneficiaries and low-income people
- Improve financial incentives to work
- Pay welfare support at a sustainable cost to government

These objectives should be considered within the overarching government commitment to overhaul the welfare system, in line with the WEAG's recommendations.

**Improving income adequacy for beneficiaries and low-income people**

Any changes proposed in this RIA should seek to improve income adequacy for low-income people. While the recent changes to the welfare system (including the Families Package, the $25 increase to main benefits on 1 April 2020 and the indexation of main benefits to average wage) will help to improve living standards of low-income people, income adequacy issues are likely to remain for many low-income people. The changes proposed in this RIA should ensure people can receive increased incomes through undertaking paid employment, and keep more of their earnings.

**Improving financial incentives to work**

Improving financial incentives to work is one component of encouraging people who are able to work to seek employment, alongside other interventions such as active labour market policies. For the majority of people, paid work is a key means of achieving improved wellbeing. For this reason, most income support systems typically aim to ensure that people are financially incentivised to work where this is a possibility.

However, financial incentives are only one of many factors that influence people's decisions on whether to work and how much to work and they are not usually the most important factor. Additionally, different amounts of work may be appropriate for different people given their circumstances.

While the changes proposed in this RIA seek to improve incentives to enter the labour market and to work part-time, the changes also slightly reduce the incentives to work full-time.

**Paying welfare at a cost that is sustainable to government**

The Government is required to act and pursue its policy objectives in accordance with the principles of responsible fiscal management as set out in the Public Finance Act 1989, such as managing fiscal risks facing the government, having regard for the impact on present and future generations, and ensuring the Crown's resources are managed effectively and efficiently.

Any changes proposed in this RIA must be at a sustainable cost to government, particularly given the current tight fiscal environment following the range of initiatives implemented by the Government in response to COVID-19.

**There are significant trade-offs between these three objectives**

There are significant trade-offs between these three objectives. It is generally possible to achieve two of the three objectives for any given policy change, but not all three. These three objectives are all important, and any policy will need to balance the trade-offs between these objectives.

# Section 3: Option identification

## 3.1 What options are available to address the problem?

***There are two options for abatement threshold increases***

Option One – Increase the abatement thresholds to $160 and $250 per week on 1 April 2021

This option proposes to increase abatement thresholds to $160 and $250 per week from 1 April 2020, as specified in the Labour Party Manifesto 2020. The proposed increases are set out below:

| Abatement threshold for: | 1 April 2021 |
|---|---|
| Jobseeker Support | $160 |
| NZS/VP with non-qualifying partner | $160 |
| SPS and SLP – Threshold One | $160 |
| SPS and SLP – Threshold Two | $250 |

Under this option, beneficiaries will be able to work up to eight hours on minimum wage (based on minimum wage increasing to $20 per hour on 1 April 2021) before their benefit begins to abate. For recipients of SPS, SLP and VP (under 65), they can work up to 12.5 hours before their benefit begins to abate at the higher rate (Threshold Two).

This would have a fiscal cost to the Government of $387.496 million in income support payments and $6.4 million in operating costs over the forecast period.

Option Two – Status quo

This option proposes not to increase abatement thresholds on 1 April 2021, other than the adjustments that have been set to occur for 2021, 2022 and 2023 through funding secured through Budget 2019. This means for the next three years, the abatement thresholds would be adjusted as follows:

| Abatement threshold for: | 1 April 2021 | 1 April 2022 | 1 April 2023 |
|---|---|---|---|
| Jobseeker Support | $95 | $100 | $105 |
| NZS/VP with non-qualifying partner | $120 | $125 | $130 |
| SPS and SLP – Threshold One | $120 | $125 | $130 |
| SPS and SLP – Threshold Two | $220 | $225 | $230 |

Under this option, the number of hours beneficiaries can currently work up to before their benefit begins to abate (around 4.5 hours on minimum wage) will be maintained (not reduce any further) over the next three years.

***There are two options for retrospectively adjusting the Minimum Family Tax Credit threshold***

There are two options to consider for retrospective adjustment to the 2020/21 MFTC threshold:

- Option One (status quo) – full retrospective alignment of the 2020/21 MFTC threshold. This is the status quo, as under current policy, the MFTC threshold would be adjusted in line with changes to benefit rates and abatement thresholds.

- Option Two – no retrospective alignment of the 2020/21 MFTC threshold.

| Retrospective adjustment | Detail | Fiscal cost | Number of families affected | Average gain for affected families |
|---|---|---|---|---|
| Option One – full alignment (status quo) | This would increase the threshold to $29,432. | $24.1 million over the forecast period. | Around 3,200 families receiving the MFTC in the 2020/21 tax year would be affected. Around 400 additional families would become newly eligible. | Additional gain of $32 for each week they receive the MFTC. It is estimated that the average MFTC increase would be $1,280 per family per year.[13] |
| Option Two – no alignment | This would maintain the threshold at $27,768. | No additional cost. | Around 3,200 families receiving the MFTC in the 2020/21 tax year would continue to receive the same amount of MFTC as currently. | Some families may be better off working and receiving an abated benefit than staying on the MFTC. |

***There are three options for prospectively adjusting the Minimum Family Tax Credit threshold***

There are three options to consider for prospective adjustment to the 2021/22 MFTC threshold:

- Option One (status quo) – full alignment of the 2021/22 MFTC threshold to reflect abatement threshold increases. This is the status quo, as under current policy, the MFTC threshold would be adjusted in line with changes to benefit rates and abatement threshold.
- Option Two – partial alignment of the 2021/22 MFTC threshold.
- Option Three – no adjustment to the MFTC threshold.

[13] The maximum MFTC increase a family could receive would be $1,664 ($32 x 52 weeks). Because newly eligible families will have incomes above the current threshold, the average increase for these families will be less than $32 dollars a week

| Prospective adjustment | Detail | Fiscal cost ** | Number of families affected ** | Average gain for affected families ** |
|---|---|---|---|---|
| Option One – full alignment (status quo) | This would increase the threshold to $32,604. | $51 million over the forecast period. | Around 4,900 families expected to be receiving MFTC in the 2021/22 tax year. Of these, around 1,300 families would be newly eligible for the MFTC. | Additional gain $61 for each week they receive the MFTC. The maximum possible increase for the year would be $3,172 per family[14]. |
| Option Two – partial alignment | This would increase the threshold to $30,576. | $17 million over the forecast period. | Around 4,000 families expected to be receiving the MFTC in the 2021/22 tax year. Of these, around 400 families would be newly eligible for the MFTC. | Additional gain of $22 for each week they receive the MFTC. The maximum possible increase for the year would be $1,144 per family[15]. Two-parent families (10% of the MFTC recipients) would be better off receiving an abated benefit and working than staying on the MFTC. |
| Option Three – no alignment | This would maintain the threshold at $29,432 (assuming retrospective change goes ahead). | There may be some working families, who move off the MFTC and on to a benefit (or stay on benefit rather than move onto the MFTC). This would mean reduced MFTC (and In-work Tax Credit) costs, but an increase in benefit costs. These costs have not been quantified and are likely to be small. | Around 3,600 families receiving the MFTC in the 2020/21 tax year would continue to receive the same amount of MFTC as in 2020/21. | Couples (and some sole-parent families) would be better off working and receiving an abated benefit than staying on the MFTC. |

** Note that this table assumes the full retrospective alignment for the 2020/21 MFTC threshold, which was agreed by Cabinet on 30 November 2020, has been implemented [CAB-20-MIN-0490 refers].

14 It is difficult to estimate the number of weeks a family would receive the MFTC on average for a future tax year. The gain would be less for families who do not receive the MFTC for the full year.

15 As above

### 3.2 What criteria, in addition to monetary costs and benefits have been used to assess the likely impacts of the options under consideration?

***Full assessment of impacts was not completed for abatement threshold increases***

As the Labour Party has committed to increasing the abatement thresholds as per Option One, MSD has not undertaken a full assessment of the likely impacts of the options in this RIA.

***Criteria for evaluating options for adjusting the Minimum Family Tax Credit***

Both the retrospective and prospective alignment options have been evaluated against the following criteria:

- **Work incentives** – the option should ensure the MFTC continues to fulfil its policy objective to financially incentivise low-income families with children to move from working and receiving a benefit to working and receiving the MFTC.
- **Equity** – the option should not financially disadvantage those families receiving the MFTC (ie, in full-time work and off benefit) compared with families who are on benefit.
- **Future reform** – the option should not significantly limit choices for future reform of the MFTC and WFF scheme generally.

### 3.3 What other options have been ruled out of scope, or not considered, and why?

As the Labour Party has committed to increasing the abatement thresholds as per Option One, MSD has not considered any other options for change, such as increasing the abatement thresholds by different amounts, or changing the abatement rate. Note that changing the abatement rate may be more difficult to influence people's decision to work as it can be harder for people to understand how the changes in the abatement rates affect their payments.

Other options ruled out include possible abatement setting changes for clients on Jobseeker Support on the ground of a health condition, injury or disability (JS-HCD). JS-HCD is available for people assessed as being temporarily unable to work, or able to work only part-time. Therefore, JS-HCD recipients have either part-time or deferred work obligations. However, JS-HCD recipients face the same high abatement rate of 70 percent as other JS clients, aimed at incentivising full-time work, which means current settings may not adequately support JS-HCD recipients to engage in part-time work. Changing the abatement settings for JS-HCD recipients to better support part-time work was ruled out due to time constraints. Further work is required to design and implement any changes in this space to ensure positive outcomes for JS-HCD recipients.

s 9(2)(f)(iv) [redacted]

# Section 4: Impact Analysis

**Marginal impact: How does each of the options identified in section 3.1 compare with taking no action under each of the criteria set out in section 3.2?**

*Adjustment to the Minimum Family Tax Credit - retrospective*

| | Option One - Full retrospective alignment of the 2020/21 MFTC threshold (status quo) | Option Two - No retrospective alignment of the 2020/21 MFTC threshold |
|---|---|---|
| **Work incentives** | **0**<br>Work incentives for the months remaining in the tax year (up until 1 April 2021) would be maintained.<br>However, any increase delivered by a lump sum at the end of the tax year (to cover April to December 2020) cannot incentivise families to move off benefit after the fact. | -<br>The MFTC threshold would not have met its policy intent of making low-income families better off working and receiving the MFTC than working and receiving a benefit. |
| **Equity** | +<br>Fully aligning the threshold will mean MFTC recipients would be not be disadvantaged compared to working families receiving a benefit.<br>Given the income assistance provided to those on benefit was increased on 1 April 2020 and the MFTC is set relative to the amount of income a beneficiary can receive, MFTC recipients should also be compensated for the increase in assistance to beneficiaries. | - -<br>Not aligning the threshold will mean MFTC recipients would be disadvantaged compared to working families receiving a benefit. |
| **Future reform** | -<br>Increasing the MFTC threshold may make future WFF reform more complex and costly, s 9(2)(f)(iv) [redacted] particularly if there is a desire to avoid people being financially disadvantaged. | +<br>Not increasing the MFTC threshold would make future WFF reform less complex and costly than Option One. |
| **Overall assessment** | **0** | - |

*Adjustment to the Minimum Family Tax Credit - prospective*

| | **Option One - Full alignment of the 2021/22 MFTC threshold to reflect abatement threshold increases (status quo)** | **Option Two - Partial alignment of the 2021/22 MFTC threshold** | **Option Three - No adjustment to the MFTC threshold** |
|---|---|---|---|
| **Work incentives** | + <br><br> This option would maintain the original MFTC policy intent of providing low-income families (both sole parent and two-parent families) with a financial incentive to increase work and move off benefit. <br><br> However, this option would extend the range of income over which families receive the MFTC, thereby reducing the financial incentive for those families to work more hours than the minimum required for the MFTC or earn more income. | + <br><br> This option would maintain the original policy intent of providing low-income families a financial incentive to work and move off benefit. It would be for a slightly smaller group than Option One as only sole parents (who account for approximately 90% of MFTC recipients) would be better off on the MFTC. <br><br> This would also extend the range of income over which families receive the MFTC, thereby reducing the financial incentive for those families to work more hours than the minimum required for the MFTC or earn more income. However, this would be less than Option One. | - - <br><br> This option would significantly diminish the original MFTC policy intent of providing low-income families a financial incentive to increase work and move off benefit. |
| **Equity** | + <br><br> Fully aligning the threshold will mean MFTC recipients (both sole parent and two-parent families) would be not be disadvantaged compared to working families receiving a benefit. | + <br><br> Sole parents, who account for approximately 90% of MFTC recipients, would remain better off on the MFTC. <br><br> However, some of the remaining 10% families receiving the MFTC may be financially better off working and receiving a benefit than working and receiving the MFTC. | - - <br><br> Not aligning the threshold will mean some MFTC recipients would be better off working and receiving a benefit than working and receiving the MFTC. An important goal of the welfare system is to enable people to fully support themselves through paid work where this is appropriate. |
| **Future reform** | - <br><br> Increasing the MFTC threshold may make future WFF reform more complex and costly, [redacted] s 9(2)(f)(iv) [redacted] particularly if there is a desire to | - <br><br> Partially increasing the MFTC threshold may make future WFF reform complex and costly; a partial alignment means families would gain around $85 a week moving from working and | + <br><br> With no alignment (ie, 2020/21 threshold of $29,432 maintained for 2021/22), families would gain around $60 a week moving from working and receiving a benefit, to working and receiving |

| | | | |
|---|---|---|---|
| | avoid people being financially disadvantaged. A full alignment means families would gain around $125 a week moving from working and receiving a benefit, to working and receiving the MFTC. s 9(2)(f)(iv) [redacted] | receiving a benefit, to working and receiving the MFTC. s 9(2)(f)(iv) [redacted] However, this would be less costly and complex than Option One. | the MFTC. Therefore, non-alignment of the MFTC threshold is likely to make future WFF reforms less complex and costly than Options One and Two. |
| **Overall assessment** | + | + | - |

**Key:**

| | |
|---|---|
| ++ | much better than doing nothing/the status quo |
| + | better than doing nothing/the status quo |
| **0** | about the same as doing nothing/the status quo |
| - | worse than doing nothing/the status quo |
| - - | much worse than doing nothing/the status quo |

## Section 5: Conclusions

### 5.1 What option, or combination of options is likely to best address the problem, meet the policy objectives and deliver the highest net benefits?

***Option One is the preferred option for abatement threshold increases***

The proposed option for abatement threshold increase is Option One as it means the thresholds will better align with the original abatement settings (as well as WEAG's recommendation), which enabled beneficiaries to work for longer hours before abatement occurred. This option will allow working beneficiaries to keep a greater proportion of their earnings before their benefit is affected, thereby improving income adequacy and financial incentives to work part-time while on a benefit.

This option may reduce the financial incentive for beneficiaries working part time to move into full time work. However, better incentivising beneficiaries to enter the labour market and maintain work, even if part-time work, is important. This is particularly so for those already disadvantaged in the labour market prior to COVID-19, such as sole parents and people with health conditions, injury or disability, for whom suitable work may only be part-time work.

Paid work can not only lift incomes and living standards, it can also enable people to experience better self-assessed health, life satisfaction and social connectedness. Part-time work can also provide a pathway to full-time work by providing opportunities to connect with the labour market, gain work experience and become familiar with the demands that can come with employment. Also, given the economic impacts of COVID-19 and many people facing reduced hours, this option ensures that those on low incomes with reduced hours can access financial assistance while still being attached to their job.

No consultation (beyond other Government agencies) has taken place as this change is a Manifesto commitment (and the Government's consideration of it is Budget Sensitive).

***Option One is the preferred option by IR for restrospectively adjusting the Minimum Family Tax Credit***

Option One is the preferred option by IR, and is the proposed option in the Cabinet paper. MSD does not have a preferred option. Note that Cabinet agreed to adjust the 2020/21 MFTC threshold as per Option One on 30 November 2020 [CAB-20-MIN-0490].

This option means the financial incentive provided by the MFTC for families with children to move off benefit and into greater amounts of work would be maintained for the remainder of the 2020/21 tax year. While the increase cannot incentivise families with children to move off benefit for the period of the 2020/21 tax year that has already passed (April to December 2020), it addresses the potential equity issues, whereby those families who remained off benefit and in work during April to December 2020 are financially disadvantaged relative to those who were on benefit.

***MSD and IR have different preferred options for prospectively adjusting the Minimum Family Tax Credit***

Option Two is the preferred option by MSD, and is the proposed option in the Cabinet paper.

This option ensures that around 90% of MFTC recipients (ie, sole parents) would remain better off working and receiving the MFTC than working and receiving a benefit. While a partial increase would extend the income range over which the MFTC is available, resulting in reduced financial incentives to work greater hours for sole parents on low-incomes, the impact would be smaller than Option One. MSD considers fully aligning the MFTC threshold would increase the cost and complexity of any future WFF review s 9(2)(f)(iv) [redacted] particularly if there is a desire to avoid people being financially disadvantaged. However, these effects will be less under Option One than Option Two.

IR's preferred option is Option One. While the fiscal cost of full alignment are greater than under other options, this option maintains the work incentives provided by the MFTC by ensuring low-income families with children (both sole parents and two-parent families) are better off working and receiving the MFTC than working and receiving a benefit.

IR does not consider the potential effects of aligning the MFTC threshold on any future WFF review to be a significant enough issue to warrant removing the work incentives currently provided by the MFTC.

IR considers that there is a potential equity issue if the MFTC threshold is not fully aligned. Less than full alignment potentially disadvantages those families who remain in work and off benefit, relative to those in work and receiving a benefit. If benefit settings are intended to reflect a minimum level of income for beneficiaries, then implicitly, the guaranteed minimum income provided to working and off-benefit families (via the MFTC) should be at least the same.

In advice to Ministers, the Treasury recommended the no prospective alignment option due to the tight fiscal environment. The Treasury also did not consider that the policy decision [to align the MFTC threshold with benefit rates] meets the threshold to be progressed as a Budget pre-commitment. While the Treasury acknowledged that it was likely to introduce greater complexity for clients, the Treasury did not agree that these adverse effects were sufficient to justify funding the initiative ahead of the Budget process given the tight fiscal environment. s 9(2)(f)(iv) [redacted]

### 5.2 Summary table of costs and benefits of the preferred approach

| **Affected parties** *(identify)* | **Comment**: *nature of cost or benefit (eg, ongoing, one-off), evidence and assumption (eg, compliance rates), risks* | **Impact** *$m present value where appropriate, for monetised impacts; high, medium or low for non-monetised impacts* | **Evidence certainty** *(High, medium or low)* |
|---|---|---|---|
| **Abatement threshold increases** | | | |
| **Additional costs of proposed approach compared to taking no action** | | | |
| Monetised cost to Crown | Increase in Benefit or Related Expenses from increasing | $387.496 million over five years. | High |

| | | | |
|---|---|---|---|
| | abatement thresholds to $160 and $250 per week on 1 April 2021 (one-off increase, no further increases in subsequent years). | | |
| | Cost of MSD implementing the abatement threshold increases (IT, additional staff, training, communications etc). | $6.4 million (one-off cost). | High |
| Low-income working individuals and families receiving main benefits | Reduction in financial incentive to work full-time. | Low to moderate impact:<br>Increasing abatement thresholds will reduce the Effective Marginal Tax Rate (EMTR) for those below it, but will extend the range of incomes above it that experience high EMTRs (ie, low financial incentive to work). | Medium |
| | Some may be financially disadvantaged as a result of the abatement threshold increases:<br>- Some people will lose their TAS disability exception as they move off the TAS upper limit and become ineligible for the DA exception<br>- Some may face a reduction in the hourly Childcare Assistance subsidy rate as a result of abatement threshold increases if they become newly eligible for AS or their AS payment increases. | Low to moderate impact:<br>Around 79 individuals and families are expected to lose an average of $19 a week. | Medium |
| **Total Monetised Cost** | Implementation and alterations to the operating model and the ongoing increase in benefit payments due to higher abatement thresholds. | $393.896 million over five years. | |

| | | | |
|---|---|---|---|
| **Non-monetised costs** | Following adjustment to the new abatement thresholds, there will be:<br>- a small number of people financially disadvantaged<br>- a reduction in financial incentive to work full-time<br>- additional work for case workers as more people become eligible for main benefits or AS. | Moderate impact. | |

| | | | |
|---|---|---|---|
| **Abatement threshold increases** | | | |
| **Expected benefits of proposed approach compared to taking no action** | | | |
| Low-income working individuals and families receiving main benefits, non-beneficiaries receiving the AS, people newly eligible for benefits as a result of the changes | Incomes will increase as a result of changes to abatement thresholds.<br><br>*This may, as a result, make housing more affordable for some (low to moderate impact). | Moderate to high impact:<br>Around 82,900 individuals and families are expected to benefit by on average $18 per week. Of these, around 15,500 are Māori families and 5,100 are Pacific families.<br><br>Around 50,300 non-beneficiaries receiving AS are expected to benefit with an average gain of $12*.<br><br>Around 7,000 newly eligible people could take up a main benefit, while around 4,000 people could take up AS as a result of the changes. | Medium |
| Low-income working individuals and families | Improved financial incentives to work, particularly part-time which will increase incomes. | Moderate impact:<br>Around 29,500 individuals and families currently receiving a main | Medium |

| | | | |
|---|---|---|---|
| receiving main benefits | | benefit are expected to benefit with an average weekly gain of $29.<br><br>Around 3,100 individuals and families receiving NZS are expected to benefit with an average weekly gain of $21. | |
| Clients with children, including SPS recipients | Reductions in child poverty as families with children are able to work more hours before their benefits are abated. | Low to moderate impact:<br>Around 50,200 families with children will benefit.<br>It is estimated that the abatement thresholds will reduce child poverty by around 6,000 (+/- 3,000) on the AHC50 fixed line measure and 2,000 (+/- 3,000) on the BHC50 measure in 2021/22. | Medium |
| **Total Monetised Benefit** | No costings of monetised benefits. | N/A | |
| **Non-monetised benefits** | Improves financial incentive to work part-time and income adequacy for low-income individuals and families. | Moderate impact. | |

| | | | |
|---|---|---|---|
| **Adjustment to the Minimum Family Tax Credit – retrospective (full alignment)** | | | |
| **Additional costs of proposed approach** | | | |
| Monetised cost to Crown | Cost of adjusting the 2020/21 MFTC threshold (retrospective). | $4.6 million in the 2020/21 tax year, $24.1 million over | High |

| | | | |
|---|---|---|---|
| | | the forecast period.[16] | |
| Low-income working individuals and families receiving the MFTC | Some families may not gain as much when they receive a lump sum payment for the 2020/21 tax year that has already past (April to December 2020):<br>- A lump sum payment could lead to debts for some people as the MFTC is chargeable income for some types of financial assistance paid under the Social Security Act 2018<br>- The MFTC is assessable income for Public Housing purposes, for assessing eligibility and calculating the rate of Income Related Rent. | Low impact. | Medium |
| **Total Monetised Cost** | | $4.6 million in the 2020/21 tax year, $24.1 million over the forecast period. | |
| **Non-monetised costs** | Some families may be financially disadvantaged due to a lump sum payment for the retrospective increase. | Moderate impact. | |

| **Adjustment to the Minimum Family Tax Credit – retrospective (full alignment)** | | | |
|---|---|---|---|
| **Expected benefits of proposed approach** | | | |
| Low-income working individuals and families receiving the MFTC, and newly eligible | Incomes will increase as a result of retrospective increase.<br><br>Improved financial incentives to work and receive the MFTC compared to working and receiving a benefit. | Moderate impact:<br>Around 3,200 families receiving the MFTC in the 2020/21 tax year would gain an additional $32 for each week they | Medium |

16 The fiscal cost is ongoing as the MFTC rate will also account for the April 2020 main benefit rate increase in prospective changes.

| | | | |
|---|---|---|---|
| | | received the MFTC.<br>The maximum possible increase for the year would be $1,664 with an estimated average MFTC increase of $1,280 per family.[17]<br><br>Around 400 additional families would become newly eligible for the MFTC in the 2020/21 tax year. | |
| **Total Monetised Benefit** | No costings of monetised benefits. | N/A | |
| **Non-monetised benefits** | Improves financial incentive to work part-time and improves income adequacy for low-income individuals and families. | Moderate impact. | |

| **Adjustment to the Minimum Family Tax Credit – prospective (partial alignment)** | | | |
|---|---|---|---|
| **Additional costs of proposed approach** | | | |
| Monetised cost to Crown | Cost of adjusting the 2021/22 MFTC threshold (prospective). | $17 million over the forecast period (assuming retrospective adjustment goes ahead).<br>(This is $34 million less than Option One). | High |
| Two-parent families on the MFTC | Reduced incentive to be in work and on the MFTC than working and receiving a benefit as some two-parent families may be financially better off working and receiving benefit. | Low impact:<br>Around 10 percent of MFTC recipients are two-parent families. | Medium |

[17] The newly eligible customers have incomes above the current threshold so the average gain for these customers will be less than $32 dollars a week.

| | | | |
|---|---|---|---|
| Sole-parent families on the MFTC | Reduced incentive for sole-parent families to work more hours than the minimum required to qualify for the MFTC. | Moderate impact. | Medium |
| **Total Monetised Cost** | | $17 million over the forecast period (assuming retrospective adjustment goes ahead). | |
| **Non-monetised costs** | For some families there may be reduced incentives to:<br>- be working and receiving the MFTC than working and receiving a benefit<br>- work greater hours than the minimum required. | Moderate impact. | |

| **Adjustment to the Minimum Family Tax Credit – prospective (partial alignment)** | | | |
|---|---|---|---|
| **Expected benefits of proposed approach** | | | |
| Low-income families on the MFTC | Incomes will increase as a result of partial increase.<br><br>Improved financial incentives to work and receive the MFTC compared to working and receiving a benefit. | Moderate impact:<br>Around 4,000 families are expected to receive the MFTC in the 2021/22 tax year.<br>Of these, around 400 families would be newly eligible to the MFTC.<br>These families would gain an additional $22 for each week they receive the MFTC.<br>This would be a maximum annual MFTC increase of $1,144 per family.[18] | Medium |

[18] The gain would be less for families that do not receive the MFTC for the full year.

| | | | |
|---|---|---|---|
| **Total Monetised Benefit** | No costings of the total monetised benefits. | N/A | |
| **Non-monetised benefits** | Improves financial incentive to work and receive the MFTC and improves income adequacy for low-income individuals and families. | Moderate impact. | |

### 5.3 What other impacts is this approach likely to have?

Better incentivising beneficiaries to engage in work through abatement threshold increases could also lead to positive impact on broader wellbeing, as being in suitable work is good for people's health and wellbeing (provided the work is safe, stable, suits people's circumstances and financially beneficial).

The expected benefits described in section 5.2 will depend on the interaction between different assistance types, the extent to which people undertake further work and the subsequent impact on their earned incomes. Also, there is a risk that the gains will be lost over time if abatement thresholds do not increase in future years.

# Section 6: Implementation and operation

| 6.1 How will the new arrangements work in practice? |
|---|
| The Manifesto commitment specified an implementation date of 1 April 2021 for abatement threshold increases.<br><br>**Legislative vehicle**<br><br>Changes to abatement thresholds require an Order in Council and regulation amendment. Abatement thresholds for main benefits and New Zealand Superannuation Non-Qualifying Partner are set out in Schedule 2 of the Social Security Act 2018. An Order in Council under section 452(2)(c) of the Social Security Act 2018 is required to make the abatement threshold increases for main benefits and NZS for April 2021.<br><br>Abatement thresholds for Veteran's Pension Non-Qualifying Partner and Veteran's Pension (under 65) are set out separately in regulation 42A of the Veterans' Support Regulations 2014, which will also require amendment.<br><br>Changes to the MFTC threshold can be made by an Order in Council as set out in sections ME 1(4) and MF 7(1)(d) of the Income Tax Act 2007. However, an Order in Council is required by 1 December for changes to apply from 1 April the following year.<br><br>Therefore, adjustments to the 2020/21 and 2021/22 MFTC thresholds would need to be made via amendments to the Income Tax 2007.<br><br>**Communication**<br><br>A communications plan will be developed to ensure the changes are communicated to staff and the public in advance of implementation.<br><br>**Transitional arrangements**<br><br>A Transitional Assistance Payment (TAP), which is a temporary non-taxable payment, could be considered for the small number of people (around 79 people) who may be financially disadvantaged by the proposed abatement threshold increases on 1 April 2021. |

| 6.2 What are the implementation risks? |
|---|
| ***Minimal implementation risks with the abatement threshold increases***<br><br>Implementation risks for abatement thresholds are minimal. The changes will use existing administrative structures and will not require any new service design.<br><br>There is a potential for public confusion around the proposed increases, as this proposal overrides the four-year adjustments to the abatement thresholds secured through Budget 2019. A communications plan will be developed to ensure sufficient information is provided to both staff and the public through various platforms, including MSD's website.<br><br>***Some implementation risks with the adjustments to Minimum Family Tax Credit***<br><br>A partial increase to the 2021/22 MFTC threshold may cause confusion with some people as to which option they would be better off under. Some two-parent families may be better off working and receiving benefit than working and receiving the MFTC, but for one reason |

| |
|---|
| or another remain on the MFTC and receive less than what they may be entitled to. Material will be developed to ensure sufficient information about the MFTC adjustments are available to both staff and the public through various platforms, including IR’s website. |

## Section 7: Monitoring, evaluation and review

### 7.1 How will the impact of the new arrangements be monitored?

***Behavioural changes arising from abatement threshold increases can be monitored using administrative data***

MSD will be able to use administrative data to monitor the trends in declared income before and after changes to abatement thresholds, including the trends for different subgroups (eg, Māori, Pacific people, sole parents, people with a health condition or disability).

An expected trend following the abatement threshold changes would be an increase in the level of income that clients declare to MSD, as a result of clients taking up extra work in response to the changes. There may also be a signalling effect (ie, changed behaviour) ahead of the changes.

***Behavioural changes arising from adjustments to the Minimum Family Tax Credit can be monitored using administrative data***

The effects of the MFTC threshold alignments can be monitored using data IR currently collects as part of administering the MFTC. This includes the number of MFTC recipients, the nature of those families, the amount of MFTC payments made, and MFTC recipient movement between the MFTC and the benefit. This administrative data will show what effect the MFTC alignment changes have on the up take of the credit, and the actual fiscal cost to the Government of the chosen settings.

### 7.2 When and how will the new arrangements be reviewed?

As part of the Welfare Overhaul work programme, MSD is working on developing a measure of a client's total income, and regularly reporting on this measure. Progression of this work will allow for reporting on this measure past 2021. The measure will allow MSD to analyse the longer term impact of this policy on client outcomes.

In December 2020, officials intend to provide advice to joint Ministers on a potential scope for a work programme to review WFF, which includes the MFTC. s 9(2)(f)(iv) [redacted] The WFF review is part of the broader welfare overhaul work programme and is expected to take at least 12 months. Any changes to WFF through legislative amendment would take even longer to implement.

It is noted that, subject to any change in Government policy on the alignment of the MFTC threshold to future changes to benefit rates or abatement settings, further reviews of the MFTC threshold will be required annually.

CAB-20-MIN-0512 **6.**

# Cabinet

## Minute of Decision

*This document contains information for the New Zealand Cabinet. It must be treated in confidence and handled in accordance with any security classification, or other endorsement. The information can only be released, including under the Official Information Act 1982, by persons with the appropriate authority.*

## Increasing Main Benefit Abatement Thresholds on 1 April 2021 and Consequential Adjustment to the Minimum Family Tax Credit

**Portfolios** **Social Development and Employment / Revenue**

On 7 December 2020, Cabinet:

### Abatement threshold increases

1 **noted** that people receiving a main benefit can earn up to a certain level of income per week (abatement threshold) before their benefit begins to reduce;

2 **noted** that abatement thresholds had not been adjusted for almost a decade prior to 1 April 2020, meaning the number of hours someone can work on minimum wage in a week before their benefit begins to reduce has declined over time;

3 **agreed** to increase the abatement thresholds on 1 April 2021 as follows:

| Abatement threshold (what beneficiaries can earn per week before their benefit begins to abate) | From 1 April 2021 |
|---|---|
| Jobseeker Support | $160 |
| New Zealand Superannuation and Veteran's Pension with non-qualifying partner | $160 |
| Sole Parent Support, Supported Living Payment and Veteran's Pension (under 65) – Threshold One | $160 |
| Sole Parent Support, Supported Living Payment and Veteran's Pension (under 65) – Threshold Two | $250 |

4 **noted** that the increases set out in paragraph 3 above are in line with the Labour Party's 2020 manifesto commitment to increase abatement thresholds so that people can keep more of what they earn while on a benefit;

5 **noted** that a small number of people may be financially disadvantaged as a result of the abatement threshold increases on 1 April 2021, and a Transitional Assistance Payment will be provided to these people for up to 12 months;

6 s 9(2)(f)(iv) [redacted]

## Adjustments to the Minimum Family Tax Credit

7 **noted** that in April 2004, as part of the introduction of Working for Families, Cabinet agreed to increase the Minimum Family Tax Credit on 1 April each year by an amount sufficient to ensure that couples do not suffer a reduction in income when moving off benefit into 30 hours of paid work a week, from 1 April 2006 onwards [CAB Min (04) 13/4];

8 **noted** that the increases to the abatement thresholds as set out in paragraph 3 above will require adjustment to the Minimum Family Tax Credit threshold for 2021/22;

9 **agreed** to increase the Minimum Family Tax Credit threshold for 2021/22 to $30,576;

10 **noted** that:

10.1 the increase in paragraph 9 above balances the trade-offs associated with increasing the Minimum Family Tax Credit, such as fiscal cost, financial incentives to work full-time and impact on the review of Working for Families;

10.2 the increase is sufficient to ensure that all sole parents moving off benefit at 20 hours of work do not suffer a reduction in income; however, is not sufficient to ensure couples do not suffer a reduction in income when moving off benefit into 30 hours of paid work a week;

## Financial implications

11 **agreed** to increase spending to provide for costs associated with the policy decision to increase the abatement thresholds on 1 April 2021, increase the Minimum Family Tax Credit threshold for 2021/22, additional Transitional Assistance Payment payments and for implementation and operational costs with the following impacts on the operating balance and net core Crown debt:

| | $m - increase/(decrease) | | | | |
|---|---|---|---|---|---|
| | **2020/21** | **2021/22** | **2022/23** | **2023/24** | **2024/25 & outyears** |
| Operating Balance and Net Core Crown Debt Impact | 25.451 | 107.473 | 97.050 | 90.503 | 90.503 |
| Operating Balance Impact Only | - | - | - | - | - |
| Net Core Crown Debt Impact Only | - | - | - | - | - |
| No Impact (Tax on Benefits) | 2.022 | 9.210 | 8.409 | 7.670 | 7.670 |
| **Total** | **27.473** | **116.683** | **105.459** | **98.173** | **98.173** |

12 **approved** the following changes to appropriations to provide for paragraph 11 above:

| | $m - increase/(decrease) | | | | |
|---|---|---|---|---|---|
| | **2020/21** | **2021/22** | **2022/23** | **2023/24** | **2024/25 & outyears** |
| **Vote Social Development** | | | | | |
| **Minister for Social Development and Employment** | | | | | |
| **Benefits or Related Expenses:** | | | | | |
| Childcare Assistance | (0.159) | (0.592) | (0.587) | (0.650) | (0.650) |
| Hardship Assistance | (0.541) | (2.255) | (2.051) | (1.860) | (1.860) |
| Jobseeker Support and Emergency Benefit | 11.363 | 53.520 | 48.984 | 44.855 | 44.855 |
| New Zealand Superannuation | 1.015 | 4.018 | 3.587 | 3.297 | 3.297 |
| Sole Parent Support | 2.548 | 11.523 | 10.435 | 9.277 | 9.277 |
| Supported Living Payment | 1.190 | 4.627 | 4.008 | 3.561 | 3.561 |
| Transitional Assistance | 0.080 | - | - | - | - |
| Winter Energy Payment | 0.652 | 2.477 | 3.676 | 3.620 | 3.620 |
| **Multi-Category Expenses and Capital Expenditure** | | | | | |
| Improved Employment and Social Outcomes Support MCA | | | | | |
| **Departmental Output Expenses:** | | | | | |
| Administering Income Support | 2.107 | 4.297 | - | - | - |
| (funded by revenue Crown) | | | | | |
| **Minister for Veterans** | | | | | |
| **Benefits or Related Expenses:** | | | | | |
| Veterans' Pension | 0.006 | 0.024 | 0.024 | 0.017 | 0.017 |
| **Minister of Housing** | | | | | |
| **Benefits or Related Expenses:** | | | | | |
| Accommodation Assistance | 8.498 | 36.206 | 34.542 | 33.205 | 33.205 |
| **Vote Housing and Urban Development** | | | | | |
| **Minister of Housing** | | | | | |
| **Multi-Category Expenses and Capital Expenditure** | | | | | |
| Public Housing MCA | | | | | |
| **Non-Departmental Output Expenses:** | | | | | |
| Purchase of Public Housing Provision | (0.286) | (1.162) | (1.159) | (1.149) | (1.149) |
| **Total Operating** | **26.473** | **112.683** | **101.459** | **94.173** | **94.173** |

13 **noted** the following changes to appropriations in accordance with subpart ME of the Income Tax Act 2007, reflecting the changed expenses described in paragraph 9 above:

| | $ million – increase / (decrease) | | | | |
|---|---|---|---|---|---|
| **Vote Revenue**<br>**Minister of Revenue** | **2020/21** | **2021/22** | **2022/23** | **2023/24** | **2024/25 & Outyears** |
| **Benefits or Related Expenses:**<br>Minimum Family Tax Credit PLA | 1.000 | 4.000 | 4.000 | 4.000 | 4.000 |
| **Total Operating** | 1.000 | 4.000 | 4.000 | 4.000 | 4.000 |

14 **agreed** that the changes to appropriations for 2020/21 above be included in the 2020/21 Supplementary Estimates and that, in the interim, the increases to annual appropriations be met from Imprest Supply;

15 **agreed** that the operating balance and net core Crown debt impact in paragraph 11 above be charged as a pre-commitment against the Budget 2021 operating allowance;

16 **agreed** that any underspends with the implementation and operational costs to increase the abatement thresholds on 1 April 2021 and administer additional Transitional Assistance Payment payments as at 30 June 2021 be transferred to the 2021/22 financial year to ensure that funding is available for that purpose;

17 **authorised** the Minister of Finance and the Minister for Social Development and Employment jointly to agree the final amount to be transferred as per paragraph 16 above, following completion of the 2020/21 audited financial statements of the Ministry of Social Development, with no impact on the operating balance and/or net core Crown debt across the forecast period;

## Legislative implications

18 **noted** that an Order in Council and an amendment to the Veterans' Support Regulations 2014 are required to increase the abatement thresholds set out in paragraph 3 above;

19 **noted** that the Minister for Veterans has agreed to the Veterans' Support Regulations 2014 being amended to implement the abatement threshold increases for the Veteran's Pension;

20 **agreed** that an Order in Council be made under sections 452(1) and 452(2)(c) of the Social Security Act 2018 to increase the abatement thresholds for Jobseeker Support, Sole Parent Support, Supported Living Payment and New Zealand Superannuation;

21 **agreed** to amend the Veterans' Support Regulations 2014 to increase the abatement thresholds for the Veteran's Pension under section 265(1)(29A) of the Veterans' Support Act 2014;

22 **noted** that adjustment to the Minimum Family Tax Credit threshold for 2021/22 would need to be made via amendments to the Income Tax Act 2007;

23 **agreed** to amend the Income Tax Act 2007 to implement the adjustment to the Minimum Family Tax Credit threshold for 2021/22 as set out in paragraph 9 above;

24 **agreed** that the legislative amendments implementing the adjustment to the Minimum Family Tax Credit threshold for 2021/22 be included in the next available tax Bill;

25 **noted** that this amendment would need to be passed by March 2021 for the Minimum Family Tax Credit payments to be made at the new rate from 1 April 2021;

26 **invited** the Minister of Revenue to instruct Inland Revenue to draft the necessary amendments to the Income Tax Act 2007 to give effect to the adjustment to the Minimum Family Tax Credit for 2021/22 as set out in paragraph 9 above.

Michael Webster
Secretary of the Cabinet

# The Treasury

## Economic Response to Future Resurgences of COVID-19 Information Release

## March 2021

This document has been proactively released by **Minister of Finance (Hon Grant Robertson)** on the Treasury website at

**https://treasury.govt.nz/publications/information-release/finance-portfolio-cabinet-material**

### Cabinet Document Details

| | |
|---|---|
| Title: | **Cabinet Paper: CAB-20-SUB-0531: Economic Response to Future Resurgences of COVID-19** |
| Date: | **11 December 2020** |
| Creator: | Office of the Minister of Finance, Office of the Minister for Social Development and Employment, Office of the Minister of Revenue, and Office of the Minister for Small Business |

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Where this is the case, the relevant sections of the Act that would apply have been identified.

Where information has been withheld, no public interest has been identified that would outweigh the reasons for withholding it.

Key to sections of the Act under which information has been withheld:

[33] 9(2)(f)(iv) - to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials

[38] 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice

[39] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage

Where information has been withheld, a numbered reference to the applicable section of the Act has been made, as listed above. For example, a [39] appearing where information has been withheld in a release document refers to section 9(2)(k).

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Office of the Minister of Finance

Office of the Minister for Social Development and Employment

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Office of the Minister for Small Business

Chair, Cabinet

# Economic response to future resurgences of COVID-19

## Proposal

1 This paper seeks agreement to a sustainable and proportionate economic support package for use in the event of further resurgences of COVID-19 in the community.

## Relation to government priorities

2 This proposal supports the Government's first overarching objective to keep New Zealanders safe from COVID-19, including by protecting jobs and livelihoods, and strengthening the economy. It does so by ensuring a package of financial support is in place for businesses and individuals in the event of Alert Level escalations following future resurgences of COVID-19 in the community, with the aim of limiting the economic and social impacts if outbreaks occur. It also seeks to reduce the risk of resurgences by supporting workers to stay home when sick. These goals are complementary, as protecting New Zealanders from the virus will also support economic activity resuming quickly after any outbreaks.

## Executive Summary

3 In the event of Alert Level escalations, a sustainable and proportionate package of economic support is needed to minimise the impact of public health restrictions on employment and incomes, deliver more equitable outcomes in the face of very short and severe economic shocks, and help to maintain social license and encourage compliance with the public health response. In turn, that enables economic activity to resume quickly after any outbreaks of the virus, allowing the economy to take advantage of the economic benefits of no or low community transmission.

4 Our economic response to the initial national lockdown and the subsequent outbreak in Auckland achieved these aims. We have also heard consistent feedback from business that certainty about the support measures that will apply in future Alert Level escalations is critical for ongoing investment and hiring activity.

5 This paper proposes a package of measures that develops and improves our previous response, building on our experience to date and feedback from business, and recognising the added stress to firms and individuals as uncertainty around the trajectory of the virus continues. Key components of the package are:

5.1 a new one-off **Resurgence Support Payment** (RSP) to help firms who are directly impacted by an Alert Level change to cover their fixed costs (such as rent) when transitioning from Alert Level 1 to Alert Level 2 or above;

5.2 an improved **Wage Subsidy Scheme** (WSS) at Alert Level 3 and above; and

5.3 additional measures at Alert Level 4 on childcare and residential tenancies, with further work on commercial tenancies.

6 The elements of the package have been designed to complement each other, with existing measures to support employment and wages buttressed by a new measure to help firms in any escalation from Alert Level 1. In designing the package we have attempted to strengthen the targeting and integrity of measures, while ensuring that there is timely and adequate support.

7 The proposed package is intended to promote confidence, employment, and a rapid return to activity following the end of Alert Level increases by providing the most affected firms with increasing levels of support as the severity and impact of public health restrictions rise.

8 The approach aims to be proportionate to the impacts. In the event of an escalation from Alert Level 1, businesses would be able to apply for a comparatively modest one-off payment under the RSP, providing cash flow to cover their costs. Businesses that require additional cash flow support could access the extended Small Business Cashflow Scheme (SBCS) or seek lending from their banks (including through the Business Finance Guarantee Scheme).

9 In any future escalation to Alert Level 3 or above, the most affected firms could also seek the WSS to help them keep their employees. Other supports on childcare and residential tenancies will also assist firms and households in an escalation to Level 4.

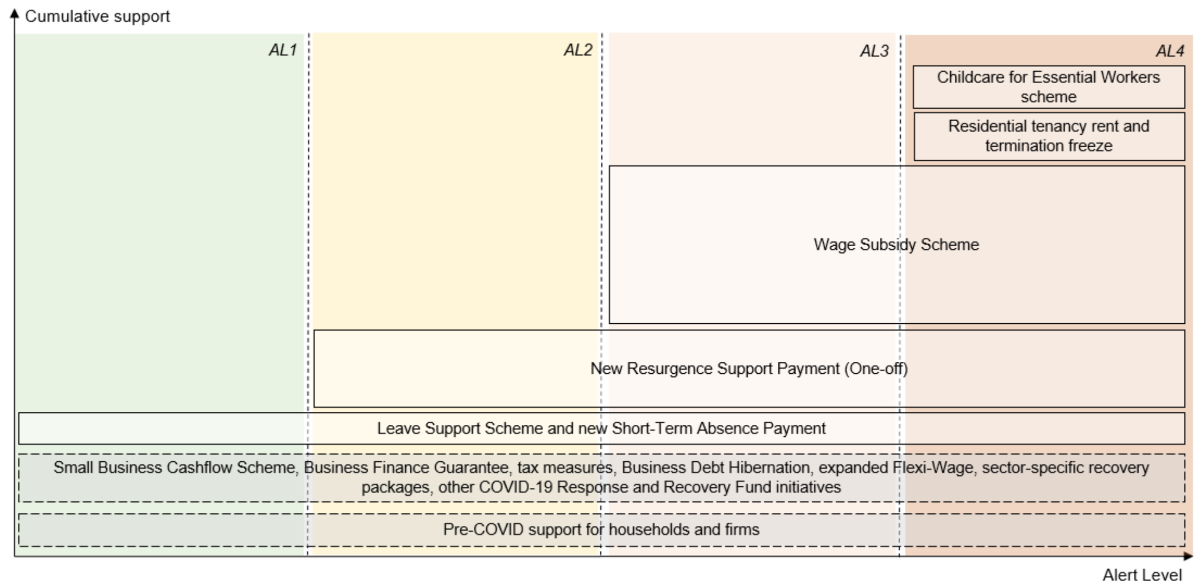
10 While the package is designed to be ready in the event of Alert Level escalations, the strongest way to support businesses and individuals is to sustain our public health response so that escalation is a last resort and economic activity is maximised.

11 Alongside the proposed resurgence measures, we therefore recommend complementing the **Leave Support Scheme** with a new **Short-Term Absence Payment** at all Alert Levels, to address an existing gap in coverage by facilitating workers who are awaiting test results to stay home and self-isolate. This aims to support compliance with the public health guidance, reducing the risk of resurgences and prolonged escalations.

12 The package of measures proposed here is designed to mitigate the direct economic costs of Alert Level escalations by protecting jobs and incomes. However, we recognise that outbreaks have multi-faceted impacts on individuals, particularly on the most vulnerable or at-risk groups.

13 In the previous term, the Government introduced a significant number of schemes, funded through the COVID-19 Response and Recovery Fund (CRFF) to address those impacts. But we will need to continue to review the integrity of that safety net to ensure it remains fit for purpose, particularly given the recent expiry of the COVID-19 Income Relief Payment (CIRP).

14 The existing economic supports and proposed new measures are outlined here:




15 The full resurgence package and new Short-Term Absence Payment will be ready to implement early next year, subject to legislation. To ensure that we are prepared for a resurgence in the meantime, we propose that the existing Wage Subsidy Scheme be reinstated in the event of a reescalation to Alert Level 3 or 4, using similar settings as the August resurgence.

16 Communicating the resurgence measures in advance of further outbreaks will provide greater certainty to businesses and individuals about the Government's economic response. While businesses will still face uncertainty over the number of outbreaks, they will be able to better plan and make investment and hiring decisions, knowing what support they will receive should an Alert Level escalation occur.

17 It is therefore proposed that the Minister of Finance announces the package, including the timeline for implementation and the interim approach, prior to Christmas.

18 The package of resurgence measures would cost around $920 million in response to an Auckland-equivalent resurgence. While a significant sum, it reflects the scale of the economic impact of higher Alert Levels. Temporary and time-limited measures are critical to limit ongoing economic damage from the impacts of escalations. There is a sufficient balance in the CRRF to fund the proposed package through multiple resurgence events.

## Background

19 The Government's COVID-19 elimination strategy allows us to take advantage of the opportunities of protracted periods of minimal community transmission. Where necessary, periods of higher restrictions are required to stamp out the virus. Our economic strategy complements this, by continuing to support people, businesses and jobs and keeping the recovery moving.

20 Key to these objectives is a sustainable and proportionate economic response to potential resurgences of the virus.

21 Our economic response to Alert Level escalations so far has comprised support for jobs, firms' non-wage costs through the SBCS, and support for vulnerable populations. The response has been successful and well-received, but there is scope to further improve aspects of its effectiveness and integrity.

22 At the time of the August outbreak, the Government commissioned further work on more sustainable arrangements for financial support in the event of future restrictions [CAB-20-MIN-0402 refers]. Since then, we have heard consistent feedback from business that certainty about the support that will be available at higher Alert Levels is critical for ongoing business and hiring activity.

23 Having considered officials' advice and listened to feedback from business, we now propose the Government announces a package of measures that develops and improves the existing model by:

23.1 making a clearer link between the period and level of support and the period and severity of restrictions;

23.2 improving the clarity and integrity of the measures, to ensure support goes to firms and individuals in need; and

23.3 providing a sustainable solution to supporting firms' fixed and transition costs beyond the Small Business Cashflow Scheme (SBCS).

24 The package maintains the same objectives as the existing model: protecting jobs and incomes, limiting economic damage by enabling a swift resumption of economic activity, and supporting social licence for the public health response and compliance with restrictions. Its core components are:

24.1 a new Resurgence Support Payment (RSP) to support firms' fixed costs when they are directly impacted by the transition from Alert Level 1 to Alert Level 2 or above;

24.2 an improved Wage Subsidy Scheme (WSS) at Alert Level 3 and above; and

24.3 additional measures at Alert Level 4 on childcare and residential tenancies, with further work on commercial tenancies.

25 While this package is designed to be ready in the event of an Alert Level escalation, the strongest way to support business and individuals is to sustain a strong public health response so that escalation is a last resort and economic activity is maximised.

26 The package will therefore be complemented by a new Short-Term Absence Payment available at all Alert Levels to facilitate workers to stay home and self-isolate while they are awaiting COVID-19 test results.

## Introducing a new Resurgence Support Payment at Alert Level 2 and above

27 We propose Cabinet agrees to establish a new one-off Resurgence Support Payment (RSP) scheme administered by Inland Revenue. This would help firms who are directly impacted by an Alert Level change to cover their fixed costs (such as rent) when transitioning from Alert Level 1 to Alert Level 2.

28 The RSP would complement other elements of our economic response to resurgences by providing a relatively modest grant to help with fixed costs such as rent, particularly at Alert Level 2, where the Wage Subsidy Scheme (WSS) is unavailable. It would be paid as a grant because many small firms are not in a position to take on additional debt.

29 A one-off grant soon after an escalation from Alert Level 1 would help offset businesses' increased costs at the outset of public health restrictions being imposed. The payment would provide cashflow support at the most critical moment, when uncertainty is likely to be highest and businesses have had the least opportunity to adapt to the restrictions.

30 This payment will support businesses who are directly impacted by the escalation in Alert Levels. For example, when the country moves from Alert Level 1 to Alert Level 2, hospitality and related businesses have to make significant changes to their operations and face significantly reduced revenue.

31 At a macroeconomic level, the RSP can also help ensure that fiscal policy provides sufficient total support to the economy. A broad-based payment of this kind can compensate for lost revenue and output more effectively than conventional fiscal stimulus measures (such as direct subsidies to support consumer activity) during periods when the economy remains constrained by public health restrictions.

32 Agreement to the design parameters specified below is sought from Cabinet, to enable further work to be completed on the implementation of the scheme. We propose that the broad outline of the scheme be announced prior to Christmas, including the rate of payment, eligibility threshold, activation triggers, key declaration requirements, role of Inland Revenue, and relationship to other support schemes.

*Objectives of the Resurgence Support Payment*

33 The purpose of the RSP is to provide support for businesses' fixed costs (such as rent) when transitioning from Alert Level 1 to Alert Level 2 or above. We propose the objectives of the scheme are as follows:

33.1 Support firms to maintain viability and employment levels across escalations in public health restrictions;

33.2 Support firms to pay fixed costs if they are struggling to do so as a result of escalated Alert Levels;

33.3 Share the cost associated with escalated Alert Levels between Government, firms and across economic sectors; and

33.4 Encourage the shift to a COVID-19 resilient economy.

34 The RSP assists firms with fixed costs when there has been a significant reduction in revenue. This complements the WSS support for short-term labour market attachment by providing cashflow support in a broad-based manner to firms impacted by public health restrictions. Firms will be required to use funds for business expenses, such as wages, capital expenditure and core operating expenses.

*One payment limited to the initial escalation in Alert Levels*

35 We propose that the scheme be limited to a one-off payment at an initial escalation from Alert Level 1 to Alert Level 2 or above. We do not propose activating the scheme each time there is a change to a lower or higher Alert Level during a resurgence event. Payment would be restricted to this format to reflect that for many firms the impact of an escalation from Level 1 is most acute at the outset, and that transitional costs are greater in respect of an increase than a decrease in Alert Levels. A one-off payment also reduces the fiscal risk of multiple payments in quick succession in the event of rapid changes in Alert Levels.

*Scheme activated after seven days*

36 We recommend Cabinet agrees to establish a minimum period of seven consecutive days that must elapse at Alert Level 2 or above before the scheme comes into effect, of which the seventh day may be a partial day. A minimum period is desirable before the RSP becomes available, as it is reasonable to expect that businesses can absorb the cost of a very short escalation in Alert Levels.

37 Firms would not begin submitting applications until 14 days after an escalation, as they would be required to declare they have experienced an actual decline in revenue over a 14-day period. If an escalation to Alert Level 2 or above occurs for seven or more days (activating the scheme) but fewer than 14 days (the period to demonstrate a decline in revenue), firms would still be eligible to apply if they experienced a decline in revenue of at least 30%.

*National availability*

38 The RSP will be available on a national level by default, even in the case of regionally elevated Alert Levels. This reflects the nationwide supply chain impacts a regional escalation can have and the administrative difficulty associated with allowing applications from certain regions only. This is consistent with the WSS.

*Payment rate and structure*

39 We propose that the payment be structured as a per-firm payment with an additional per-FTE component. This is the same structure as the SBCS, weighting relative support in favour of smaller firms. Smaller firms are likely to have weaker financial reserves, and consequently be less resilient to revenue shocks. However, unlike the SBCS, the RSP would be available to firms of all sizes.

40 We recommend that the rates are set at $1,500 per firm and an additional $400 per FTE. For most firms, this provides a lower level of support than the WSS, which is appropriate, given that the RSP will be available in the event of an escalation to Alert Level 2 when the economic impacts are generally lower. The payment rates for the RSP would not need to be increased at Alert Levels 3 and 4, as firms that are most impacted by the restrictions will become eligible for the WSS.

41 The per-FTE component will be capped at a maximum of 50 FTEs. Firms with more than 50 employees will still receive a payment (up to a maximum of $21,500).

42 It is estimated a payment at these rates would cover 51% of an average sole trader's fixed costs for one week, 59% for an average firm with 1-5 FTEs, and 25% for the average firm with 20-50 FTEs. Within these averages, there will be significant variation, including as a result of sectoral differences.

43 We consider that these rates are sufficient to be credible and that they recognise the impact of public health restrictions on firms, while still requiring most firms to cover some of the costs associated with resurgence events (and therefore build their resilience).

44 In effect, this means a sole trader would receive a payment of $1,900, a small-to-medium enterprise (10 FTEs) would receive $5,500, and medium-to-large sized firms (50 FTEs or more) would receive $21,500. This would be complemented by the WSS in an escalation to Alert Level 3 or 4, subject to the firm's revenue declining by 40%.

*Requirement to declare a drop in revenue caused by an escalation*

45 The RSP will be limited to firms that declare an actual drop in revenue due to the effects of the escalation from Alert Level 1 in place at the time.

46 Similar to what is proposed for the WSS below, we propose to introduce a further declaration for applicants as follows:

46.1 The firm attributes the effect to the escalation in Alert Levels that began on [date of current escalation]; and

46.2 The effect has led to the decline in revenue that the firm has declared.

47 This would help to distinguish revenue drops relating to the public health escalation from effects of border closures, broader economic effects of COVID-19, and normal baseline revenue volatility. Applicants will be required to keep evidence to support this declaration (i.e. records showing the specific effects on their business and the resulting impact on revenue). This would be implemented in a high-trust manner, meaning firms establish an impact by declaration with the knowledge that records may be checked in case of audit. Officials will develop guidance on suitable record-keeping as evidence for the attributable declaration and revenue decline test.

48 We considered more prescriptive approaches to this declaration, such as requiring firms to link the decline in revenue to specific health restrictions (including adherence to physical distancing requirements). However, officials advised that enforcement would be difficult, could increase uncertainty and compliance costs for businesses, and would have limited benefit, given most businesses are affected in some way by restrictions at Alert Level 2 or above.

*Revenue must decline by at least 30% to be eligible*

49 We consider firms should be required to demonstrate a revenue decline of at least 30%, alongside the declaration that the decline is attributable to the current Alert Level escalation. Any test lower than 30% would be insufficiently targeted, resulting in too many firms receiving support, with greater associated fiscal cost. A higher revenue drop test such as 40% would be inconsistent with the revenue impacts felt by firms at Alert Level 2 and would likely result in too few firms receiving support.

50 Firms would be required to declare they have experienced an actual decline in revenue over a 14-day consecutive period after the initial escalation from Alert Level 1. This is unlike the WSS which allows for predicted revenue drops, as described below. The divergence reflects the lower economic impact on firms at Alert Level 2, when concerns about business confidence and firms' access to immediate short-term cashflow support are less present. The requirement to declare an actual drop improves the integrity of the scheme.

51 Firms would be required to hold information that demonstrates their revenue declined by at least 30%. This impact must be compared against a useful data point. The current comparison point for the WSS is a similar period in the prior year, which is becoming progressively less accurate at selecting firms in need of support as the economy adjusts to COVID-19.

52 We propose that the default comparator period for the revenue drop test, for both the RSP and WSS, should be the typical fortnightly revenue in the six weeks prior to the Alert Level escalation that triggered the scheme. Employers that have highly seasonal revenue can use a prior year comparator if their seasonal revenue changes make it harder for them to meet the revenue decline test.

53 Eligible firms would be able to apply after the first 14 days of an escalation, as firms will need to demonstrate an actual decline in revenue over a period of that length. The test would apply to any 14-day period between the start and end of an escalation from Alert Level 1 to Alert Level 2 or above (unless a return to Alert Level 1 nationally occurs within 14 days of the initial escalation, in which case the 14-day period will include the period spent at Alert Level 2 or above and any subsequent days at Alert Level 1). This recognises that, while the decline must be attributable to the effects of the escalation, the impact on a firm's revenue may not be immediate in some cases. There may also be lags in a firm's ability to generate the information required to make the declaration. Firms will therefore be able to apply until one month after a return to Alert Level 1 nationally.

54 The revenue drop test will serve as the principal targeting mechanism for the scheme, as it is likely to identify the firms most in need of economic support owing to the impact of public health restrictions. It will target support at those sectors or regions that are most affected by higher Alert Levels, while also ensuring affected firms in any sector or region are eligible.

55 A well-designed declaration process and revenue drop test, as we propose, will assist in targeting support to sectors most in need owing to the impact of the escalation in restrictions. Therefore, we do not propose that the RSP include any additional sectoral or regional targeting, as this is likely to add significant operational complexity, create difficult boundary issues, and exclude some firms legitimately in need of support.

*Definition of revenue*

56 For the purposes of the RSP and WSS, revenue is used as a proxy for income-generating activity. In elevated Alert Levels, physical distancing measures would reduce activity, and therefore income or revenue. The challenge is how a firm determines whether it has experienced a drop in activity/revenue, particularly when its business operates on an accrual (and not cash) basis and "earns" income by sending out invoices on a monthly or infrequent basis rather than having a daily cashflow.

57 We propose that revenue is clarified by guidance material published by Inland Revenue. The guidance would cover the following matters:

57.1 Revenue is derived from standard income-generating activities; and

57.2 Revenue is to be determined by applying standard accounting principles.

58 The 14-day revenue decline period starts on or after the escalation period commences. The comparison amount would be on an average fortnightly revenue within the six weeks before the escalation that triggered the scheme.

59 Revenue will not include funds from the WSS, SBCS or RSP. Revenue will not include income that is received passively (meaning those whose income is wholly derived passively, for example, landlords, or through dividend or interest payments).

60 The guidance will be developed by officials, who will report back to the Ministers responsible for the WSS, SBCS and RSP if the guidance is found to have unintended negative effects on applicants or if the definition of revenue shifts from what is stated above.

*Viability test*

61 Firms would be required to declare that they are a "viable, ongoing business" in order to apply for the RSP. This is aligned with the requirements for the SBCS, and is intended to help ensure that support is provided only to firms that have reasonable future prospects.

*Other eligibility settings*

62 We propose that sole traders should be eligible for the RSP. While this creates some integrity risk, sole traders are a significant proportion of firms and therefore should be eligible for support.

63 In line with recent changes to the SBCS, we recommend that firms should be eligible only if they have been in business for at least six months. This is an integrity measure and limits the fiscal risk associated with businesses being formed in order to apply for the support.

64 Pre-revenue firms, such as start-ups, are eligible for the WSS and the SBCS if they meet specific eligibility criteria. This reflects that pre-revenue firms may suffer financially if an escalation event delayed their capital raising activities or deferred their progress towards being market-ready (particularly upon an increase to Alert Level 3 or 4). We therefore propose that pre-revenue firms be eligible for the RSP, subject to satisfying the eligibility criteria for pre-revenue firms established through the WSS and SBCS.

65 We recommend that groups of related companies be eligible for a single per-firm payment, with the per-FTE payment similarly capped at 50 FTEs across all related entities. This avoids advantaging a firm with groups of companies and incentivising firms to split their businesses to increase their entitlement.

66 Charities and not-for-profit entities should be eligible for the RSP scheme, provided they meet the other eligibility criteria for the scheme (including a requirement to declare they are a "viable, ongoing organisation").

67 State sector entities will be subject to the same rules for State Sector Organisations (SSOs) as under the WSS. This means SSOs (including State Owned Enterprises) would be excluded by default from the scheme, but can be granted an exemption to apply for the scheme by the Minister of Finance. Inland Revenue would then make an assessment of the application. We recommend existing exemptions made under the WSS be transferred to the RSP.

68 We also recommend a minimum age requirement to prevent young people (e.g. children with paper runs) from applying for the grant and receiving what is likely to be significantly more than their usual monthly revenue. We recommend the minimum age limit be 18 years (as with the SBCS).

*Restrictions on use*

69 The WSS requires firms to pass through the value of the WSS to employees as wages subject to normal deductions as PAYE. As the SBCS did not have a pass-through requirement, it introduced restrictions on the use of funds as an integrity measure: firms must declare that the funds will be applied to business expenses only and cannot be passed through to shareholders or owners of the business or organisation. This gives firms flexibility in use of the payment, while the declaration constitutes an integrity measure (though the fungibility of money means its enforceability is likely to be complex). We recommend applicants for the RSP be required to declare the fund will be applied to business expenses only (including wages, capital expenditure and core operating costs).

*Repayment expectation*

70 Currently the WSS is repayable when an employer has not met the eligibility criteria (for example, if its predicted revenue loss does not occur); if it has not complied with the conditions attached to the subsidy; if it has provided false information; or if it has received insurance to cover any costs covered by the subsidy. We propose that the same rules apply for the RSP. This means that a firm will be required to repay the RSP if it is demonstrated to have not experienced the revenue decline it declared on application. Consistent with our view on the WSS, we do not recommend any additional rules be added in relation to profit or revenue growth, given the complexity and uncertainty this would add to the scheme, and the risk of creating unintended hardship for certain firms and their employees.

*Complementary supports*

71 We propose that firms should be able to receive the RSP alongside other forms of support including the WSS, SBCS, Short-Term Absence Payment (STAP) and LSS. The schemes serve different purposes, with the SBCS providing lending for cashflow purposes, the WSS supporting the retention of the workforce during higher Alert Levels, and the RSP providing firms with fungible, non-repayable support to assist transitions from Alert Level 1 to Alert Level 2 or above.

*Implementation agency*

72 Inland Revenue would administer the RSP. It has indicated that it could implement the scheme six to eight weeks after Cabinet decisions are taken, subject to passage of the required legislative amendments.

*Tax treatment*

73 We consider businesses should not be subject to income tax on payments under the RSP they receive, nor should they be able to claim deductions for expenditure funded by those payments. This is consistent with the standard income tax treatment of Government grants.

74 We recommend GST-registered businesses should pay GST on payments they receive under the RSP, with those businesses being able to claim input tax deductions for the relevant expenditure. This is consistent with the standard GST treatment of Government grants, but will differ from the GST treatment of the WSS payments. We consider the difference is justified because the WSS is required to be passed on to employees, and employee salaries and wages are not subject to GST.

*Delegation to Joint Ministers*

75 To ensure that officials have sufficient mandate from Ministers, we propose that Cabinet authorise the Minister of Finance, the Minister of Revenue, and the Minister for Small Business to take decisions relating to further design details and operational matters required to progress the implementation of the RSP, in alignment with the key parameters agreed in this paper.

## Strengthening the Wage Subsidy Scheme at Alert Levels 3 and above

76 The Wage Subsidy Scheme has been the core element of the Government's economic response to COVID-19. Since March of this year, there have been three main iterations of the scheme: the 12-week Wage Subsidy Scheme opening in March, a further 8-week extension opening in June, and the 2-week Wage Subsidy Resurgence Scheme available during the August outbreak of COVID-19 in Auckland. These are collectively referred to as the Wage Subsidy Scheme (WSS).

77 Under the WSS, employers that experienced a COVID-19-related drop in revenue (30% for the initial iteration, and 40% subsequently) were able to claim a subsidy of $585.80 per week for each full-time employee (20 hours or more) or $350 for part-time employees (less than 20 hours). Employers were obliged to retain, for the duration of the subsidy, staff for whom they claimed the subsidy or repay it if staff were not retained. They were also required to exercise their best endeavours to pay at least 80% of those employees' ordinary salary or wages or, at a minimum, pay at least the value of the subsidy to those staff (or their normal wages if less). A total of $14 billion has been paid out across the three schemes, in respect of 1.8 million unique jobs.

78 Following the Auckland outbreak, the last Government directed officials to report back on a more sustainable, longer-term Wage Subsidy Scheme [CAB-20-MIN-0402 refers]. That advice has informed our recommendations detailed below.

*Confirming the objectives of the Wage Subsidy Scheme*

79 We propose that, going forward, the objectives of the WSS be to:

79.1 Temporarily support workers' incomes and employment attachment during periods at Alert Level 3 or above;

79.2 Provide support for employers to pay wages if they are struggling to do so as a result of an escalation to Alert Level 3 or above;

79.3 Share the cost associated with a period at Alert Level 3 or above between the Government, employers and employees, and across economic sectors;

79.4 Balance short-term labour market attachment with long-term labour market reallocation; and

79.5 Encourage the shift to a COVID-19-resilient economy.

*Signalling support in advance*

80 We propose that the Government signals now that it intends to introduce a WSS if there is an escalation to Alert Level 3 or above, anywhere in New Zealand, for seven or more consecutive days (of which the seventh day may be a partial day), subject to any other factors relevant at the time.

81 We do not propose to open the WSS for Alert Level escalations of fewer than seven days. As with the RSP, we consider it is reasonable for employers to manage the effects of Alert Level escalations that are shorter than one week without support. In addition, it takes MSD five business days to open the scheme with current operational arrangements and around a week after restrictions are in place for support to begin flowing to most employers.

82 We also propose linking, through automatic rules, the duration of support to the duration of lockdown. Under current settings, the WSS is provided in two-week lump-sum payments. We propose to continue this arrangement but clarify upfront that the subsidy payments will be "rounded" to the nearest fortnight. For example, there would be a two-week payment for both an eight-day lockdown and a twenty-day lockdown. We also propose that the availability and settings of an open scheme are reviewed by Cabinet every six weeks, and to review this approach again six months after its introduction.

83 In addition, we propose publicly communicating the key parameters of the WSS in advance of any future resurgence and as part of an announcement on the overall package. These parameters are discussed below.

*Core Wage Subsidy Scheme parameters would be unchanged*

84 We propose that the core parameters of the August iteration of the WSS be retained for any future resurgence. This includes:

84.1 The 40% revenue drop eligibility test;

84.2 Payment rates of $585.80 per week for each full-time employee (20 hours or more) and $350 for part-time employees (less than 20 hours);

84.3 An obligation for employers to retain, for the duration of the subsidy, staff for whom they claimed the subsidy (or repay it if not), and to endeavour to pay at least 80% of those employees' ordinary salary or wages, or, at a minimum, to pay at least the value of the subsidy to those staff (or their normal wages if less); and

84.4 Nationwide availability of the scheme by default, even in the case of regionally elevated Alert Levels (for the reasons discussed above for the RSP).

*Proposed changes to the Wage Subsidy Scheme*

85 Stakeholder feedback on the WSS has been highly positive, with the scheme widely viewed as being timely and effective at enabling rapid cashflow (which was especially important for small businesses) and at maintaining workplace connections in the face of significant uncertainty due to COVID-19. Nevertheless, there are opportunities to make improvements.

86 The need to deliver support at pace during a resurgence and the limitations of MSD's delivery systems means that the scheme will always need to be relatively high-trust, but minor changes can be made in the short term to improve its integrity.

87 MSD’s original approach to WSS integrity built on the applicant declarations for each scheme, and included pre- and post- payment checks of employer details, a coordinated complaints process, a thorough investigations process, and a repayment process. This approach has been refined over time, and enhancements made for later schemes will carry through to future schemes.

88 These include enhanced up-front controls, and the exception of applications that that appear to pose some integrity risk in relation to their entitlement for previous schemes (including where repayments have been requested).

89 Pre-payment validation of information with IR and pre-payment checks of [39] This includes more detailed discussions [39] that they met the eligibility criteria before approval, and that they understand their obligations under the scheme.

90 Officials are progressing work on the following minor short-term improvements to the scheme’s integrity:

90.1 Increasing visibility and publicity around audit, enforcement and repayments, including through ministerial communications;

90.2 Improving guidance for applicants to reduce error rates and improve automation rates; and

90.3 Clarifying the drafting of rules under the scheme, including a definition of “revenue” and eligibility of company groups (the intent is for these rules to be consistent with the proposed settings where possible, as discussed above).

91 Beyond these operational changes already being progressed, we seek Cabinet agreement to a small number of other changes to the WSS in relation to the below areas that can be delivered in the short term.

*New attribution test*

92 First, similar to what is proposed for the RSP above, we propose to introduce a new test to distinguish revenue declines relating to public health escalation, from the effects of border closures, broader economic effects of COVID-19 and normal baseline revenue volatility. As at present, a firm applying for the WSS will need to declare that it has been affected by COVID-19. However, unlike at present, the firm will also need to declare that:

92.1 the firm attributes the effect to the escalation in Alert Levels that began on [date of current escalation]; and

92.2 the effect has led to the decline in revenue that the firm has declared.

93 Applicants will be required to keep evidence to support this declaration, such as records showing the specific effects on their business and the resulting impact on revenue. Like other elements of the WSS, this would be implemented in a high-trust manner, meaning records may be checked in case of audit. Officials will redraft the existing WSS declaration to give effect to this change and develop guidance on records that applicants can keep as evidence.

94 It is intended that employers suffering indirect effects of elevated Alert Levels could still qualify for WSS support under this test, such as a business with heavily affected customers or suppliers. While this may appear to be a broad test, the requirement for this to also have led to a revenue decline creates a more robust test that will help target support to those that are genuinely affected.

*Revenue decline test*

95 We propose to retain the requirement that employers will need to experience or predict at least a 40% decline in weekly revenue relative to an appropriate comparator period to qualify for the WSS. Applicants will be required to hold information that demonstrates their revenue declined by at least 40%.

96 Currently, a prior-year comparator is used for the revenue decline. However, this is becoming progressively less accurate at selecting firms in need of support as the economy adjusts to COVID-19.

97 We propose the default test period for the WSS revenue decline will be revenue over a 14-day period following the escalation to Alert Level 3 (or above). Applicants will be able to apply based on a predicted or actual decline (as currently). Allowing for a predicted revenue decline provides rapid confidence for employers who may be deciding whether to retain staff. The Minister of Finance and the Minister for Social Development and Employment will consider whether there is merit in the default test period being subject to a small amount of flexibility to reduce compliance costs associated with calculating revenue outside of the normal accounting cycles.

98 We propose the default comparator period for the WSS revenue tests should be the typical fortnightly revenue in the six weeks prior to the Alert Level escalation that triggered the scheme. This will normally align with the RSP comparator period. Employers that have highly seasonal revenue will be allowed to use a prior year comparator, if they can show that the seasonality in their revenue makes it harder to meet the revenue decline test with the default comparator period than if their revenues were not seasonal.

99 In some complex public health scenarios, such as several Alert Level escalations in quick succession, it may be necessary to offer a different comparator period which provides a more appropriate baseline.

100 We propose that Cabinet delegates final decisions to the Minister of Finance and the Minister for Social Development and Employment jointly on any further implementation details, including for the revenue drop test, test and comparator period (including exceptions to the default period) and reapplication requirements.

*Use of the Wage Subsidy Scheme for employees on annual leave*

101 Under current settings, employers can use the WSS to pay for holiday entitlements. In line with the Holidays Act 2003, employers must either agree leave with their employee, or if agreement cannot be reached, an employer can direct their employee to take leave with a minimum of 14 days' notice in writing. However, agencies have received feedback that some employers have not complied with this requirement while receiving the subsidy.

102 To address the risk of non-compliance with employment law, we are planning to support employer compliance with clearer explanations and expectations of rights and obligations under employment law and by promoting use of existing Government employment dispute services.

103 Using existing employment law levers in this way (rather than changing WSS rules) maintains employees' flexibility to take leave voluntarily and avoids undermining existing employment relationships.

*Repayment obligations*

104 Currently payments received under the WSS are repayable when an employer has not met the eligibility criteria (for example, if the predicted revenue loss does not occur) or is not upholding the conditions attached to the WSS, or has provided false information, or has received insurance to cover any costs covered by the WSS.

105 There has been some media coverage of firms that have recorded profits after receiving WSS payments. The public may be less supportive of the WSS if they feel the cost of public health restrictions is not being shared fairly. We considered introducing a rule for new schemes to address this issue through repayment obligations. However, with the blunt settings available under the scheme, it is not possible to accurately distinguish firms for whom the WSS contributed to retaining staff versus firms for whom the WSS only increased profits.

106 For example, a high level of firm profits over a year does not necessarily mean that payments under the WSS were not warranted. Profit may have been a result of shifting to a more resilient business model or of investments made prior to COVID-19 restrictions.

107 Given this, we do not recommend at this stage that any additional repayment rules are added in relation to profit or revenue growth, given the complexity and uncertainty this would add to the scheme, and the risk of creating unintended negative impacts for some firms and their employees.

*Further work on more substantive changes is planned*

108 Beyond the changes proposed above, we have directed officials to report back to Ministers in February 2021 on whether other, more substantive changes could be made to the scheme, including:

108.1 introducing a higher-integrity model;

108.2 establishing a legal framework for the scheme;

108.3 introducing more payment tiers to reduce windfalls;

108.4 examining the potential benefits of moving scheme delivery to IR; and

108.5 the feasibility of a repayment rule, in a more enduring scheme, for employers who receive payments under the WSS, then subsequently both lay off staff and make a profit.

109 We propose that any public communication relating to the WSS emphasise that the core elements of the WSS will remain the same, while noting that officials are continuing to work on further possible improvements to the scheme.

### Consistency between the RSP, WSS, and SBCS

110 In designing the RSP, and proposing amendments to the WSS, officials have attempted to achieve consistency between the two schemes and the SBCS, where sensible, so as to reduce business confusion. This is reflected in a number of the settings proposed above for the RSP, including many of the settings relating to business declarations and business eligibility.

111 There are other settings that are not in alignment. Some are based on policy grounds, such as the differing revenue drop thresholds under the RSP and WSS reflecting the schemes' different purposes. Others are based on the fact that there will be different agencies implementing the schemes, with different system capabilities and different approaches to achieving necessary scheme integrity. Nevertheless, as revisions to the WSS and detailed design decisions for the RSP are made, officials will continue to promote alignment between the schemes where possible and desirable.

## Other elements of the COVID-19 resurgence package

*Residential tenancies*

112 In response to the initial outbreak of COVID-19, the Government introduced legislation to restrict residential tenancy terminations for three months and freeze residential rent increases for six months.

113 It is proposed that Cabinet agrees to reinstate these measures in the event of an escalation to Alert Level 4. Doing so would support the public health response and assure temporary maintenance of living standards by ensuring people are able to safely stay in one place throughout the duration of a lockdown.

114 Reinstating these measures will require new legislation, as previous provisions have expired and did not include reactivation clauses. Prior to introducing this legislation, further work would be required on the design of residential tenancy measures, to ensure any temporary changes are sufficiently flexible and fit for purpose. This may include limiting the provisions to the period of time spent at Alert Level 4, and considering possible grounds for exemptions to the eviction restrictions.

115 Below Alert Level 4, we consider these measures are not justified, as they prevent transition, impede on landlord property rights, and may cause more housing stress for renters in the long term.

116 To address the economic impact of a further outbreak, the Ministry of Housing and Urban Development also intends to consider if any changes are warranted to allow break lease fees to be waived for tenants needing to break fixed term tenancies in the event of sudden job and income loss. The situation will depend on what government support is available to the tenant (e.g. the WSS), the position of the landlord, and the duration at Alert Level 4.

*Childcare for Essential Workers*

117 The Childcare for Essential Workers scheme was available during the first COVID-19 outbreak to provide childcare for essential workers by directly funding government-subsidised childcare providers, via government agencies.

118 During the initial period of availability, overall uptake of the scheme was relatively low, driven in part by a delay in decisions on funding which affected the ability to contract providers.

119 As the scheme has now lapsed, we propose that Cabinet agree to reinstate a similar but improved measure in the event of an escalation to Alert Level 4, in recognition of the lack of availability of other forms of childcare (such as schooling and early childhood education) at Alert Level 4, and the impact this may have on the ability of essential workers to attend work during a resurgence.

120 To address the previous delay in implementation, contracts will need to be negotiated with home-based early childhood education service providers ahead of time. [38]

121 We propose that decisions on the following matters be delegated jointly to the Minister of Education and Minister of Finance, following advice to be provided by Ministry of Education officials by the end of March 2021:

121.1 the hourly rate to be paid to providers and the estimated four-week costs; and

121.2 the proposed funding source and mechanism, with any expenditure or draw down of funding subject to Cabinet approval at the time of an escalation to Alert Level 4.

*Commercial tenancies*

122 The initial Alert Level escalation led to a number of disputes between commercial tenants and landlords regarding payment of rent when commercial premises could not be accessed or used due to the Alert Level restrictions, with many commercial lease contracts silent on the obligations arising in such a situation.

123 To address these issues, the Cabinet Economic Development Committee agreed in June to amend the Property Law Act 2007, to imply a clause into leases of businesses that meet eligibility criteria to require a fair proportion of rent and outgoings to cease to be paid when a tenant's business has suffered a material loss of revenue because of COVID-19-related restrictions [DEV-20-MIN-0100 refers]. Legislation to implement this change was ultimately not progressed.

124 Ahead of a further escalation in Alert Levels, there is merit in considering further interventions (legislative or otherwise) to better facilitate appropriate negotiations over commercial rent in the event of a resurgence or other emergency event unrelated to COVID-19. However, designing an appropriate intervention in this area is difficult, and the need for intervention may reduce over time as leases are renewed and clauses addressing such a situation are introduced into a higher proportion of lease contracts.

125 Given this, we propose to invite the Minister of Justice to report back to Cabinet on this matter by February 2021, [33]

As part of any announcement, we propose to note that further work is being undertaken on the matter of commercial tenancies, without specifying a solution.

*Other measures*

126 The measures listed above are not exhaustive. In the event of a severe resurgence, it may be possible that other measures will be needed. For example, a number of omnibus Bills were passed immediately prior to, and following, the initial shift to Alert Level 4. However, the measures discussed in this paper represent the core of the economic response to further outbreaks, and are sufficient for communicating the details of a proposed resurgence package to the public.

## Reducing the risk and extent of resurgences through the COVID-19 Leave Support Scheme

127 The measures discussed above are proposed to be introduced in the case of a resurgence of COVID-19. In contrast, the COVID-19 Leave Support Scheme (LSS) is already available at all Alert Levels. The scheme is intended to incentivise eligible employees and the self-employed to self-isolate and stay home when sick. Self-isolation and staying at home when sick or where there has been a risk of exposure to COVID-19 plays an important role in containing and preventing the spread of COVID-19, and can therefore help reduce the risk of prolonged Alert Level escalations and the associated economic and social costs.

128 The existing scheme provides a two-week lump-sum payment ($585.80 per week for full-time workers, and $350 per week for part-time workers) to employers in respect of certain eligible workers. Eligible workers include (but are not limited to) people who:

128.1 have contracted, or possibly been exposed to, COVID-19;

128.2 are, or have a household member who is, at an increased risk of severe illness if they contract COVID-19;

128.3 have COVID-19-like symptoms and are awaiting a test result and work in a health, disability, or aged-care facility or service; or

128.4 are a parent or caregiver of a dependent who has been told to self-isolate for a period and the dependent needs support to do so safely.

129 There are several exclusions from the scheme including:

129.1 workers who can work from home;

129.2 international returnees who are in managed isolation facilities;

129.3 workers whose employer is already receiving a WSS payment in respect of them at that time; and

129.4 employees of state sector organisations (unless an exemption has been granted).

*Effectiveness of the COVID-19 Leave Support Scheme*

130 Following a recent review, officials have identified areas where the LSS can be improved to close gaps in coverage and address inefficiencies.

131 First, many workers are currently ineligible for the scheme. With the exception of health workers (for whom the criteria are broader), the LSS does not cover workers who are sick (or whose dependents are sick) with COVID-19-like symptoms, unless they have either received a positive test result or been advised to self-isolate by a medical practitioner, or advised or directed to self-isolate by a Medical Officer of Health.[1] For example, the LSS is not available to workers who have been told to stay home when sick by Healthline, or workers who have been tested and told to stay home when sick by a community testing station (unless they fulfil other criteria).

132 Currently, ineligible workers may continue to go to work while they wait for a test result because of financial necessity, concern about their sick leave balance, or pressure from employers who do not want to absorb the cost of their absence. This creates a risk that they return to work while sick with COVID-19.

133 Second, there is an inefficiency in the scheme. Employers are paid a two-week lump sum for workers in aged care, disability and health services if they are told to self-isolate while getting tested. The two-week lump sum is also available to those who meet the high risk of suspicion criteria, or casual contacts who are only required to self-isolate until they return a negative test result. However, the number of days workers are required to self-isolate before receiving a test result is usually between one and three. This generally results in an overpayment of between eleven and thirteen days (although employers are expected to use any remaining subsidy for other eligible staff or return the remaining subsidy to MSD).

*Public health guidance regarding self-isolation and staying home when sick*

134 The Ministry of Health is proposing to amend public health guidance regarding the situations in which people are advised or required to stay at home or self-isolate. The proposed guidance recommends that everyone who gets a COVID-19 test (other than those without symptoms that are taking part in routine or surveillance testing) be asked to stay at home while awaiting the result. If agreed, these changes will likely expand the number of people who may be eligible for the LSS, and the proposed new Short-Term Absence Payment, which is discussed below.

[1] A direction to self-isolate can only be made by a Medical Officer of Health under the Health Act 1956 or as part of an Order made under the COVID-19 Public Health Response Act 2020. Otherwise, instructions to self-isolate or stay home when sick do not have legal effect.

*Introducing a new $350 COVID-19 Short-Term Absence Payment*

135 To address the existing issues around the (lack of) availability of the LSS for workers being tested for COVID-19, we propose to complement the LSS by introducing a new 'COVID-19 Short-Term Absence Payment' (STAP).

136 We propose that the STAP be a one-off, flat-rate payment of $350, available to eligible employers (including self-employed workers) to support them in paying workers who:

136.1 legally work in New Zealand; and

136.2 cannot work from home; and either

136.3 need to miss a shift or more from work to stay home while awaiting a test result in accordance with either public health guidance or requirements; or

136.1 are the parent or caregiver of a dependant who needs to stay home while waiting for a test result and needs support to do so safely, and the parent or caregiver needs to miss a shift or more of work while supporting their dependant.

137 We note that public health guidance may be issued from a range of places, including the Ministry of Health website, Healthline, GPs, the National Contract Tracing Centre, Medical Officers of Health, Community-based Assessment Centres, or Public Health Units.

138 This proposal is a significant expansion beyond the current LSS criteria and has the potential to make a material difference in encouraging workers to stay home when sick. The proposed STAP aligns with the proposed changes to public health guidance referenced above. In particular, it is focused on supporting workers who have been tested for COVID-19 to stay home when sick, rather than just the much narrower pool of people who are formally directed to self-isolate or advised to self-isolate by a doctor.

139 Workers currently covered by the two-week LSS while awaiting a test result (such as health care workers) would no longer be eligible for the two-week LSS in the first instance and would instead be eligible for the STAP. This would address the inefficiency outlined above, as the level of payment would better reflect the shorter period required in self-isolation while waiting for results.

140 The existing two-week lump-sum payment would continue to be available for those who need to self-isolate for a longer period (often 14 days), including in the event of a positive test result. Employers who receive the STAP for workers getting tested could therefore subsequently apply for the two-week lump-sum payment if their worker is eligible and required to self-isolate for a longer duration.

141 The STAP is intended to reduce incentives or pressures for workers to come into work in a situation in which they risk spreading COVID-19. These incentives and pressures can exist even when employees have sick leave. Accordingly, the STAP will be available irrespective of whether the worker has a sick leave balance and will signal the importance to the wider public and businesses of not going to the workplace while awaiting a test result. We note that the proposed increase to statutory sick leave entitlements from five to ten days will only begin to come into effect in a phased manner from mid-to-late-2021.

142 How the worker is to be paid if the employer applies for the STAP will be governed by their employment agreement, employment law and any negotiations between the employer and employee. The employer can apply for the STAP irrespective of whether the employee has or uses an existing sick leave entitlement. There will be an expectation as part of the declaration process that employers use the STAP to support employees who need to stay home while awaiting a test result.

143 We note the STAP declaration will not include the obligation to keep the employee employed for the duration of the payment, as there is no specified duration as there is for the LSS. However, employment law means that an employee could not be dismissed for taking time away from work while receiving the STAP. Officials will consider how incorrect payments and overpayments of the STAP will be dealt with and provide advice to delegated Ministers as part of implementation.

144 The STAP will not be available to:

144.1 employers in respect of workers who are not legally working in New Zealand;

144.2 businesses registered or operating outside New Zealand;

144.3 employers, including self-employed people, who are receiving a WSS or LSS payment for that named worker at that time;

144.4 workers who can work from home;

144.5 workers who have routine testing in their workplace such as border workers and MIQ workers (unless they are symptomatic);

144.6 non-symptomatic people participating in surveillance testing;

144.7 people staying in managed isolation facilities;

144.8 New Zealanders who are currently overseas;

144.9 State Sector Organisations (including State Owned Enterprises), except where an exception has been granted in relation to the WSS or LSS; or

144.10 workers of entities other than registered business, sole traders, self-employed persons, registered charities, incorporated societies, non-government organisations, or post-settlement governance entities.

145 Employers or the self-employed will be able to apply for the STAP no more than once in any thirty-day period per eligible worker (unless a health official or medical practitioner advises or requires the worker to re-test). Like current payments made under the LSS, the STAP will be GST-exempt, and treated as excluded income and non-deductible for the employer.

146 MSD expects that it will be ready to offer the new STAP, if agreed by Cabinet, from mid-February 2021. MSD will provide advice to joint ministers on when applications will go live.

147 We propose confirming the ongoing availability of the LSS and the introduction of the new STAP alongside announcements of the resurgence support package.

*Outstanding issues with the COVID-19 Leave Support Scheme*

148 Introducing the new STAP will not resolve all potential issues. For example, workers may still be incentivised to come into work if the amount the employer pays to the worker for the days they could not work is less than their normal income.[2] In addition, some employers may choose not to apply for the STAP if they consider it is not worth the effort. Nonetheless, the STAP is an effective short-term solution to key concerns.

*Risks associated with the proposed COVID-19 Short-Term Absence Payment*

149 Due to the consistently low numbers of people applying for existing LSS, it is difficult to anticipate likely uptake of the STAP. Eligibility for the STAP and LSS will also fluctuate along with public health guidance on who needs to stay home while awaiting COVID-19 test results. While IT changes to stand up the scheme can be made by mid-February 2021, it is currently difficult to fully ascertain the implications for ongoing administration of the STAP. Once live, MSD can monitor uptake to understand any additional resourcing needs; however, this lag could lead to an impact on processing times for applications if application numbers are high in the short-term.

150 If there is another community outbreak and an escalation to Alert Level 3 or higher, MSD may need to process a significant number of payments between the STAP, the LSS, and the WSS. This will also have a flow-on impact on MSD's ability to administer the schemes and deliver on other commitments, such as the Flexi-Wage expansion, meet the peak demand for seasonal work, or support the expected growth in people needing income support.

151 As with other measures discussed in this paper, MSD will operate the payment in a very high trust manner [39]

However, MSD will have some ability to monitor application behaviour that may pose some integrity risk (i.e. duplicate or multiple applications for employees) and will follow up any allegations received about misuse of the scheme.

[2] Those with a sick leave entitlement should receive their usual sick leave pay; however, for those without sick leave the employer could legally pay the $350 STAP which may be less than their usual income. If the worker's usual income is less than $350 for that period an approach consistent with the LSS would mean the employer would only need to pass on their usual income.

152 Employers will be asked to declare that they are eligible and that their employee has advised them that they meet the eligibility criteria. There is a risk that some employers and self-employed people may take advantage of the payment's availability to make windfall gains, [39]

However, the gain for employers will be relatively small, especially in the context of the administrative effort of applying, which should mitigate this risk.

153 Additional criteria will also help to reduce excessive use, such as defining what constitutes missed work. In addition, testing stations generally test only those who have symptoms, and employers will need to declare that they are applying for support for an employee who has been tested and is staying away from work until they get their test results back.

### Supporting individuals and whānau

154 The package of measures we are proposing to signal in advance largely focusses on fiscal transfers to firms that allow them to continue to pay wages and bills when they are subject to public health restrictions. These measures also support the incomes of individuals employed by those firms, both across the duration of resurgence events and beyond those events, as firms will be more likely to manage through Alert Level escalations without the need for significant cost-cutting or job losses, particularly if subjected to multiple resurgences.

155 The economic and social impacts of a COVID-19 outbreak on individuals persist beyond the short period at higher Alert Levels, and many of the impacts – such as job losses – can take time to materialise. The Government has put in place a number of measures to support individuals affected, such as the now expired COVID-19 Income Relief Payment and the recently expanded Flexi-Wage Scheme [CAB-20-MIN-0493 refers].

156 The broader social safety net is critical to ensure that individuals and whānau most at risk can access support relevant to more bespoke needs during public health restrictions. That could include individuals already out of work or unable to work, homeless individuals, and young people in deprived households. We have funded a significant number of initiatives through the CRRF to ensure that the safety net is robust.

157 In response to the Auckland outbreak the Minister of Finance directed the Treasury to review the support landscape for low income and vulnerable households in South Auckland. The review found that the current support landscape for these groups during outbreaks has no significant gaps, and that the most substantial improvements we can make are in the quick delivery and deployment of support in partnership with relevant groups.

158 It is therefore vital to work with our Treaty of Waitangi partners, trusted local leaders, and with community groups (such as churches and local NGO leaders), who have a valuable role to play in providing support to vulnerable people and supporting social licence in the event of any Alert Level escalation.

## Resurgence preparedness in the near term

159 Given the package of economic measures described above will not be available immediately, in the event of a re-escalation in Alert Levels over the Christmas holiday period, we propose reinstating the WSS if the escalation is to Alert Level 3 or 4. Some of the improvements to the WSS proposed in this Cabinet paper may not be implemented prior to Christmas, meaning that in the event of a resurgence over the Christmas holiday period, settings may be equivalent to those used in the August resurgence.

160 MSD is undertaking contingency planning for such an event, but it may take longer than normal for the scheme to be stood up if a resurgence takes place over the Christmas period, owing to limited staff availability.

161 It will not be possible to introduce the RSP if an Alert Level escalation takes place ahead of the passage of legislation to enable IR to deliver such a scheme, currently expected in late February or early March 2021. However, there are other possible options available, such as to increase the rate of the WSS paid out or signal retrospective payments of the new grant when it is available to compensate for the new scheme not yet being available. Given that the need for additional support beyond the WSS will depend on the nature of the resurgence, we propose that Cabinet take a decision on any supplementary measures at the time of a resurgence, should this eventuate.

## Decision-making process for resurgence measures

162 On 9 December, the Cabinet Business Committee considered a paper from the Minister for the COVID-19 Response, detailing plans for the public health response to COVID-19 over the summer holiday period and seeking agreement to a Standard Operating Procedure for the response to a case of COVID-19 being tested in the community [CBC-20-MIN-0096 refers]. This set out that Ministers with the Power to Act would decide whether to escalate Alert Levels in the event of future community transmission. It would therefore not be a decision for Cabinet.

163 The measures in the resurgence package will be introduced only in the event of an escalation to the Alert Level at which they are applicable. The Minister of Finance and relevant Joint Ministers will seek Cabinet approval to their introduction and the necessary funding at that time.

164 In the meantime, relevant Joint Ministers will progress the outstanding design decisions and legislation required on the components of the resurgence package in line with the recommendations below.

165 In the event of a resurgence over the Christmas period, we propose that Cabinet authorise the Minister of Finance and relevant Joint Ministers to take the necessary decisions to introduce the WSS if there is a decision to escalate to Alert Level 3 or above for more than one week.

## Financial Implications

*Overall resurgence package*

166 The eventual fiscal cost of the proposed package depends directly on the frequency, duration and severity of any Alert Level escalations.

167 Different scenarios will result in different fiscal costs. Multiple separate resurgence events would trigger several payments of the RSP and increase the cost of the scheme. Remaining at Alert Level 3 or above for longer durations would increase expected uptake of the WSS, and at Alert Level 4 the Childcare Support for Essential Workers support would be introduced.

168 The table below shows the estimated indicative combined fiscal cost of the RSP and WSS in different scenarios:

| Scenario | Estimated cost | | |
|---|---|---|---|
| | RSP | WSS | Total |
| **Alert Level 2 nationally for four weeks** | $350 million | N/A | **$350 million** |
| **Auckland-equivalent outbreak[3]** | $400 million | $520 million | **$920 million** |
| **Alert Level 3 nationally for 2 weeks, Alert Level 2 for 6 weeks** | $450 million | $960 million | **$1,410 million** |

169 As discussed above, Cabinet approval will be sought for the introduction of the measures and the necessary funding, at the time of an Alert Level escalation at which the measures are applicable.

170 Unless otherwise identified below, we propose that any additional funding required to meet the cost of the measures in the resurgence package be charged against the COVID-19 Response and Recovery Fund (CRRF), established as part of Budget 2020.

171 Around $12.84 billion remains unallocated from the CRRF as at 4 December 2020. There are likely to be upcoming calls on the CRRF of approximately $2.84 billion, which would leave around $10 billion unallocated. This amount would be sufficient to meet the estimated costs of the schemes through multiple resurgence events.

[3] Auckland at Alert Level 3 for 2 weeks followed by Alert Level 2 for 6 weeks. The remainder of NZ is at Alert Level 2 for a total of 6 weeks, with the Wage Subsidy Scheme available nationally to eligible businesses while Auckland is at Alert Level 3.

*Resurgence Support Payment scheme*

172 Based on the parameters of the RSP scheme proposed in this paper, the fiscal cost is estimated to lie between $350 and $450 million per outbreak and escalation from Alert Level 1 to Alert Level 2 or above.

173 There is some uncertainty regarding uptake of the scheme. The costings above are based on a revenue drop requirement of 30%, and an estimated 150,000 firms qualifying for the payment at Alert Level 2.

174 The cost of operationalising and establishing administrative capacity for the scheme will be met within Vote Revenue baseline in 2020/21. Thereafter, an estimated total of $9 million in new operating funding is required across the period 2021/22 – 2024/25. This assumes the scheme will be in place for two years and will require a further two years of funding for integrity and compliance work once it has ended.

175 IR has noted that it will need to provide for these administrative costs across the period 2020/21 to 2022/23 while the scheme is in place, whether or not it is activated. While the scheme is inactive, resources funded for the RSP will be used for other tax administration duties. If the RSP is underspent, funding for 2023/24 and 2024/25 will be returned to the Centre.

176 We propose to fund the estimated administrative cost of $9 million from the COVID-19 Response and Recovery Fund (CRRF), established as part of Budget 2020.

*Wage Subsidy Scheme*

177 The cost of the WSS is dependent on the number of recipients. In an Auckland-equivalent outbreak – where Auckland is at Alert Level 3, the remainder of the country is at Alert Level 2, and the WSS is available nationally – the estimated cost is $520 million per fortnight. In the event of a nationwide escalation to Alert Level 3, the estimated cost is $960 million per fortnight, as demand is expected to be higher.

178 Both the Wage Subsidy Extension and Resurgence Wage Subsidy had lower uptake than originally forecast. This has resulted in an underspend of around $1.3 billion remaining in the existing *Business Support Subsidy Covid-19* appropriation. In the first instance, we recommend that any future WSS payments be funded (in full or in part) from the underspend in the appropriation.

*Childcare for Essential Workers*

179 Reintroducing a Childcare for Essential Workers support at Alert Level 4 for four weeks [38]

180 Officials have identified two options for funding the revised Childcare for Essential Workers scheme:

180.1 through reprioritisation of unspent funding [33]

180.2 through Cabinet approval [33]

181 We propose that Cabinet authorise Joint Ministers (the Minister of Finance and the Minister of Education) to agree on the preferred funding option following advice to be provided by Ministry of Education officials by the end of March 2021.

*Other resurgence package measures*

182 There are no direct financial implications from the proposals to introduce legislation to restrict residential tenancy terminations and freeze residential rent increases.

*Complementing the Leave Support Scheme with a new Short-Term Absence Payment*

183 The likely cost of the STAP, including administration costs for MSD, is still being determined. However, it could potentially be very significant if there are high rates of testing, high numbers of people advised to stay home while sick, and there is high take-up of the payment by those eligible.

184 The cost of the STAP will be met in the first instance from a balance of approximately $85 million remaining in the existing COVID-19 Leave Support Scheme appropriation in Vote Social Development.

185 We recommend that Cabinet direct officials to report back to the Minister of Finance, the Minister for Workplace Relations and Safety, and the Minister for Social Development and Employment with updated fiscal cost estimates including administration costs, based on expected take-up of the LSS and STAP and any required amendments to settings, once proposed changes to health guidance regarding self-isolation and staying home when sick have been confirmed.

186 We propose that Cabinet authorise these Ministers to appropriate funding for the administration of the scheme up to $10 million, to be a charge against the COVID-19 Response and Recovery Fund established as part of Budget 2020, with any additional funding required to be sought from Cabinet;

## Legislative Implications

187 Legislation will be required to enable Inland Revenue to deliver the proposed new RSP. In particular, amendments will need to be made to the Tax Administration Act 1994. These amendments should be included in a stand-alone tax bill to be introduced and passed through all stages under urgency in February 2021. This would enable the RSP to become available in late February or early March 2021.

188 This stand-alone tax bill will be included in the Minister of Revenue's Bill bid for 2021. The Joint Ministers for the RSP will present a paper to the Legislation Cabinet Committee in early February seeking approval to introduce the Bill giving effect to the proposed RSP. This paper directs Inland Revenue officials to draft the necessary amendments to the Tax Administration Act 1994 to implement the RSP.

189 Legislation will also be required to implement the freeze on residential tenancy rent increases and tenancy terminations. The current expectation is that this legislation will not be progressed unless a shift to Alert Level 4 is imminent.

# Impact Analysis

## Regulatory Impact Statement

190 Cabinet's Impact Analysis requirements apply to the proposal to establish a new RSP and the proposal to agree in principle to freeze residential tenancy rent increases and restrict tenancy terminations upon escalation to Alert Level 4.

191 There is no Regulatory Impact Statement for the RSP proposal. The relevant Treasury policy team and the Treasury Regulatory Quality Team have agreed on the nature and timing of a Supplementary Analysis Report (SAR). This SAR will be provided to the Cabinet Legislation Committee meeting in February 2021.

192 There is also no Regulatory Impact Statement for the proposal to agree to freeze residential tenancy rent increases and tenancy terminations upon escalation to Alert Level 4 and the Ministry of Housing and Urban Development has not agreed to a SAR. If the proposal proceeds to discussion at a Cabinet committee, and substantive decisions are made, Cabinet's impact analysis rules require the responsible Minister to provide a SAR, the nature and timing of which will be determined in conjunction with the Minister of Finance.

## Population Implications

193 The proposals in this paper will support our national effort to eliminate COVID-19, for the benefit of all New Zealanders. The RSP and WSS will provide additional financial support to firms to allow them to continue to pay their staff and cover non-wage costs, and quickly continue operations as soon as Alert Level restrictions allow. In turn, this benefits individuals employed by those firms. The Short-Term Absence Payment will be available to workers who have been advised to stay at home while awaiting a test result, which will help all businesses to continue to pay those taking leave from work to protect others from a potential outbreak.

194 Uptake of the SBCS and previous iterations of the WSS has been broad across sectors, ethnicities and regions, benefiting a wide cross-section of society, including women, Māori and Pasifika, who make up a significant proportion of some of the most affected sectors. We expect the take-up of a new RSP to be consistent with this, as the proposed eligibility criteria are broadly equivalent. Uptake of the LSS has been low, partly due to the criteria that it cannot be received at the same time as the WSS. The new STAP proposed in this paper will focus on workers being tested. This year testing rates have been higher for the Auckland region, women and Pasifika.

195 The proposed approach to communications set out below will seek to ensure government works and communicates with Māori and Pasifika groups and partners in order to maximise the effectiveness of the measures in these communities.

## Human Rights

196 There are no human rights issues raised by the Resurgence Support Payment proposal. The proposed minimum age of 18 reflects the legal minimum age for minors to enter into contracts, and is consistent with the requirements for the Small Business Cashflow Scheme.

197 In the time available, the Ministry of Justice (MOJ) has not been consulted on the RSP proposal. MOJ will be consulted as part of the legislative stage in early 2021.

## Consultation

198 The Treasury, Ministry of Social Development and Employment, Inland Revenue, Ministry of Business, Innovation and Employment, Ministry of Health, Ministry of Education, Ministry of Justice, Ministry of Housing and Urban Development, and the Department of Prime Minister and Cabinet (COVID-19 Group and Policy Advisory Group) were consulted on this paper.

199 Officials engaged with Business New Zealand, the New Zealand Council of Trade Unions, the Auckland Chamber of Commerce, the Corporate Taxpayers Group, the Chartered Accounts Australia and New Zealand, and Māori and Pacific business leaders in developing the resurgence package. Stakeholders were broadly supportive of the approach to create greater certainty on the landscape of government support, and particularly welcoming of measures that address non-wage costs.

200 There was strong feedback that the integrity of the schemes will be critical, with both Māori and Pacific business leaders raising concerns about possible gaming of the WSS by large firms. It was suggested that the communications approach to the package should be accompanied by clear guidance to maximise accessibility of the schemes, and partnership with trusted community partners will also aid access.

## Communications

201 In order to provide business clarity on the supports provided in the event of a resurgence, we propose that the package of measures are announced by the Minister of Finance prior to Christmas.

202 Alongside the development of an announcement package, we propose that materials and content are developed and distributed across key business government channels, through the COVID-19 Group administered Unite Against COVID-19 campaign, and trusted community channels where appropriate, and for a range of audiences, including Māori and Pasifika businesses and sole traders.

203 In order to ensure consistency of content and approach, we propose that the Treasury works with operational agencies to ensure that content is prepared and is live both at the time of the announcement, as well as in the event of an escalation. To aid the uptake and support of the package, opportunities for early engagement with business stakeholders such as Business New Zealand, local chambers of commerce, and Regional Business Partners will be pursued.

## Proactive Release

204 This paper will be proactively released with any appropriate withholdings as soon as practicable after public communication of the support package. The Minister of Finance is proposing to publicly announce the support package before Christmas.

## Recommendations

The Minister of Finance, the Minister for Social Development and Employment, the Minister of Revenue, and the Minister for Small Business recommend that the Committee:

1 **note** that, in the event of Alert Level escalations, a comprehensive package of economic support is critical to minimise the associated economic and social impacts, and to support compliance with the public health response;

2 **note** that our economic response to Alert Level escalations so far has been effective, albeit with scope for further improvements;

3 **note** that communicating in advance a resurgence package to be introduced in the event of future escalations responds to business requests for certainty and allows firms and individuals to better plan;

*Resurgence package measures – summary of proposals*

4 **note** that the package of measures proposed for use in future escalations builds on the existing model and comprises:

4.1 a new Resurgence Support Payment (RSP) to help firms directly impacted by an Alert Level change to cover their fixed costs (such as rent) when transitioning from Alert Level 1 to Alert Level 2 or above;

4.2 an improved Wage Subsidy Scheme (WSS) at Alert Level 3 and above; and

4.3 measures that relate to childcare and residential tenancies at Alert Level 4, with further work on commercial tenancies;

5 **note** that the indicative fiscal cost of the RSP and WSS in the following Alert Level scenarios is estimated to be:

| Measure | AL2 nationally for four weeks | AL3 nationally for 2 weeks, AL2 for 6 weeks |
|---|---|---|
| **Resurgence Support Payment** | $350 million | $450 million |
| **Wage Subsidy Scheme** | N/A | $960 million |

6 **note** that reintroducing the Childcare for Essential Workers scheme at Alert Level 4 for four weeks is expected to cost [38]

7 **note** that, as the proposed measures would be introduced only in the event of a future Alert Level escalation, the eventual fiscal cost depends directly on the frequency, duration and severity of any escalations;

8 **note** that, due to substantial uncertainty around the timing, frequency and duration of any future Alert Level escalations, funding for the resurgence package is not being sought at this time, except for administrative costs;

9 **note** that, except where an existing appropriation or relevant contingency has been identified, the proposed funding source for the measures, subject to Cabinet approval at the time of an escalation, is the COVID-19 Response and Recovery Fund (CRRF), established as part of Budget 2020;

10 **agree** to the proposed package of measures set out in recommendation 4 for use in a future Alert Level escalation, subject to Cabinet approval at that time;

11 **agree** that the Minister of Finance will announce the above package prior to Christmas;

*Resurgence Support Payment scheme – detailed recommendations*

12 **note** that the purpose of the Resurgence Support Payment (RSP) scheme is to complement the WSS and support firms' fixed costs when transitioning from Alert Level 1 to Alert Level 2 or above;

13 **agree** that the objectives of the RSP scheme will be to:

13.1 Support firms to maintain viability and employment levels across escalations in public health restrictions;

13.2 Support firms to pay fixed costs if they are struggling to do so as a result of escalated Alert Levels;

13.3 Share the cost associated with escalated Alert Levels to be shared between Government, firms and across economic sectors; and

13.4 Encourage the shift to a COVID-19 resilient economy;

14 **agree** that the RSP scheme will be administered by Inland Revenue (IR);

15 **agree** that the RSP scheme will provide a one-off payment to eligible firms in the initial event of an escalation from Alert Level 1 to a higher Alert Level anywhere in New Zealand, subject to approval by Cabinet at the time of an escalation from Alert Level 1 at which the scheme becomes applicable and within the parameters agreed below;

16 **agree** to the following parameters for the design of the RSP scheme:

16.1 the scheme will be activated after a minimum period of seven days (of which the seventh day may be a partial day) under Alert Level 2 or above;

16.2 the scheme will be available nationally, recognising supply chain implications occur even when an escalation is limited to a region;

16.3 firms will be eligible if they have experienced a revenue decline of at least 30% across a 14-day consecutive period at Alert Level 2 or above (including days at Alert Level 1 if there is a national return to Alert Level 1 within 14 days of the initial escalation);

16.4 eligible firms will declare that, in respect to the declared decline in revenue, they have been affected by a current escalation from Alert Level 1 to Alert Level 2 or above, and that:

16.4.1 the firm attributes the effect to the escalation in Alert Levels that began on [date of current escalation]; and

16.4.2 the effect has led to the decline in revenue that the firm has declared;

16.5 the default comparator period for the RSP revenue tests will be the typical fortnightly revenue in the six weeks prior to the Alert Level escalation that triggered the scheme;

16.6 firms that have highly seasonal revenue will be allowed to use a prior year comparator if they can show the seasonality in their revenue makes it harder to meet the revenue decline test with the default comparator period, than if their revenue were not seasonal;

16.7 the payment rate will be $1,500 per firm and an additional $400 per FTE, with the per-FTE component capped at 50 FTE;

16.8 eligible firms will declare that funds will be repaid if their decline in revenue is found to have been less than 30%;

16.9 eligible firms will declare that funds will be applied to business expenses only, including wages, capital expenditure and core operating costs;

16.10 eligible firms will have to be in business for at least six months and declare that they are a "viable, ongoing business";

16.11 the types of organisations that are eligible for the WSS will also be eligible for the RSP, including State Sector Organisations, pre-revenue firms, sole traders, charities and not-for-profit organisations (who must declare they are a "viable, ongoing organisation");

16.12 the minimum age of an applicant will be 18 years; and

16.13 the scheme will close for applications one month after a national return to Alert Level 1;

17 **note** that the one payment per firm rule will apply to firms with groups of companies to avoid advantaging such firms or incentivising firms to split their businesses to increase entitlements;

18 **note** that officials are developing a common definition of revenue across the WSS, Small Business Cashflow Scheme (SBCS) and RSP, and will report back to relevant Joint Ministers before publishing this guidance;

19 **agree** that firms will be able to receive the RSP alongside other forms of support, including the WSS, Short-Term Absence Payment (STAP), Leave Support Scheme (LSS) and SBCS, and that funding provided through these schemes will not count as revenue for the purposes of the RSP revenue drop test;

20 **agree** that existing exemptions provided to State Sector Organisations by the Minister of Finance under the WSS transfer to the RSP;

21 **note** that firms in receipt of the RSP will not be subject to income tax or be able to claim deductions for expenditure funded by the RSP, and that GST-registered firms will pay GST on the RSP and, in turn, be able to claim input tax deductions for the relevant expenditure;

22 **authorise** the Minister of Finance and the Minister of Revenue and Minister of Small Business (Joint Ministers for the RSP) to jointly take decisions relating to the further design details and operational matters required to progress the implementation of the RSP, in alignment with the parameters agreed above;

23 **note** that Inland Revenue estimates that the RSP could be in place by late February 2021, subject to the required legislation;

24 **direct** Inland Revenue officials to draft the necessary amendments to the Tax Administration Act 1994 to implement the RSP proposals described above;

*Wage Subsidy Scheme – detailed decisions*

25 **agree** that the Government introduce a WSS in the event of an escalation to Alert Level 3 or above, anywhere in New Zealand lasting seven or more consecutive days (of which the seventh day may be a partial day), with the introduction of the scheme subject to approval by Cabinet at the time;

26 **agree** to provide WSS support to match the duration spent at Alert Level 3 or above, rounded to the nearest 14 days;

27 **note** that recommendation 26 means that WSS support could exceed or fall short of the total period spent at Alert Level 3 or above by up to one week;

28 **note** that employers would be able to apply for a two-weekly payment once MSD opened the WSS scheme (which is likely to be within a few days of the seventh day of elevated Alert Levels) and could apply for subsequent two-weekly payments as long as the scheme remains open, subject to recommendation 26;

29 **invite** the Ministers of Finance and of Social Development and Employment to report back to Cabinet on this activation approach by June 2021;

30 **invite** the Ministers of Finance and of Social Development and Employment to report back to Cabinet on the continued availability and settings of the WSS if it remains open for more than six consecutive weeks, and every six weeks thereafter;

31 **agree** to retain core WSS settings including a revenue drop test of 40%, current payment rates, employee retention obligations, pass-through requirements and the scheme being available on a nationwide basis by default;

32 **note** that officials are progressing the following minor short-term improvements to WSS integrity:

32.1 increasing visibility and publicity around audit, enforcement and repayments, including through ministerial communications;

32.2 improving guidance for applicants to reduce error rates and improve automation rates;

32.3 clarifying the drafting of rules under the scheme, including a definition of “revenue” and eligibility of company groups;

33 **agree** that to be eligible for the WSS, employers must have been affected by a current escalation to Alert 3 or above, and:

33.1 the firm attributes the effect to the escalation in Alert Levels that began on [date of current escalation]; and

33.2 the effect has led to the decline in revenue that the firm has declared;

34 **note** that officials will redraft the declaration made by applicants to the WSS to reflect this change;

35 **agree** that the test period for the WSS revenue decline be revenue over a 14-day period following the escalation to Alert Level 3 (or above), based on actual or predicted revenue;

36 **agree** that the default comparator period for the WSS revenue tests be the typical fortnightly revenue in the six weeks prior to the Alert Level escalation that triggered the scheme;

37 **agree** that employers that have highly seasonal revenue be allowed to use a prior year comparator if they can show that the seasonality in their revenue makes it harder to meet the revenue decline test with the default comparator period, than if their revenues were not seasonal;

38 **note** that it may be necessary to allow exceptions from this proposed default comparator period in complex public health circumstances, such as several Alert Level escalations in quick succession which make it more difficult to identify an appropriate baseline;

39 **note** that employers are allowed to use the WSS to pay for periods when employees are on annual leave;

40 **note** that, to address any potential misunderstandings around the interaction between the WSS and employment law, in particular related to use of annual leave, Ministers and officials will provide prominent and clear explanations and expectations of employment law rights and obligations and promote existing Government employment dispute services;

41 **note** that firms are already required to repay the WSS in a number of situations, and, due to difficulty in designing a well-targeted repayment rule under the current scheme, no additional repayment rules in relation to firm profit or revenue growth are proposed at this stage;

42 **note** that Ministers have asked officials, as part of advice on a more enduring WSS, to look at the feasibility of a repayment rule for employers who receive payments under the WSS, then subsequently both lay-off staff and make a profit;

43 **agree** to delegate authority to the Minister of Finance and the Minister for Social Development and Employment jointly to make operational changes, and decisions on minor changes and clarifications to WSS settings, including on any further implementation details for the revenue decline test, test and comparator period (including exceptions to the default period), and reapplication requirements;

*Other resurgence package measures*

44 **note** that further design work and new legislation will be required to reinstate a freeze on residential rent increases and restrictions on tenancy terminations;

45 **agree** that a freeze on residential rent increases and restrictions on tenancy terminations be reinstated, subject to the passage of the required legislation and approval by Cabinet at the time of an escalation to Alert Level 4;

46 **agree** that an improved Childcare for Essential Workers scheme be introduced, subject to approval by Cabinet at the time of an escalation to Alert Level 4;

47 **invite** the Minister of Justice to report back to Cabinet in February 2021 on the matter of commercial lease disputes, [33]

*Support for individuals and whānau*

48 **note** that the Government funded a significant number of initiatives from the COVID-19 Response and Recovery Fund to ensure that the safety net for low-income and vulnerable people is robust;

49 **note** that, in the event of future resurgence, it will be important to ensure that effective and timely support is deployed in partnership with our Treaty of Waitangi partners, with trusted local leaders, and community groups;

*Leave Support Scheme and new Short-Term Absence Payment*

50 **note** that the COVID-19 Leave Support Scheme (LSS) continues to remain available at all Alert Levels and promotes compliance with the public health response by supporting workers to stay home and self-isolate in certain situations;

51 **note** that the Ministry of Health is proposing to amend public health guidance, which will clarify that everyone who gets a COVID-19 test (other than those without symptoms that are taking part in routine or surveillance testing) should be asked to stay at home while awaiting the result;

52 **note** that a review of the LSS has identified a need to expand the situations in which financial support is available to support compliance, and to address inefficiencies;

53 **agree** to address these issues by introducing a one-off COVID-19 Short-Term Absence Payment (STAP) of $350, available to eligible employers (including self-employed workers) to support them in paying workers who:

53.1 legally work in New Zealand; and

53.2 cannot work from home; and either

53.3 need to miss a shift or more from work to stay home while awaiting a test result in accordance with either public health guidance or requirements; or

53.4 are the parent or caregiver of a dependant who needs to stay home while waiting for a test result and needs support to do so safely, and the parent or caregiver needs to miss a shift or more of work while supporting their dependant.

54 **agree** that workers currently covered by the two-week LSS while awaiting a test result would no longer be eligible for the two-week LSS payment in the first instance and would instead be eligible for the STAP, but that, provided they meet the other criteria, could move onto the LSS if required;

55 **note** that the payment will not cover:

55.1 employers in respect of workers who are not legally working in New Zealand;

55.2 businesses registered or operating outside New Zealand;

55.3 employers, including self-employed people, who are receiving a WSS or LSS payment for that named worker at that time;

55.4 workers who can work from home;

55.5 workers who have routine testing in their workplace such as border workers and MIQ workers (unless they are symptomatic);

55.6 non-symptomatic people participating in surveillance testing;

55.7 people staying in managed isolation facilities;

55.8 New Zealanders who are currently overseas;

55.9 State Sector Organisations (including State Owned Enterprises), except where an exception has been granted in relation to the WSS or LSS; or

55.10 workers of entities other than registered business, sole traders, self-employed persons, registered charities, incorporated societies, non-government organisations, or post settlement governance entities;

56 **agree** that employers are able to apply a maximum of once in any thirty-day period for the STAP for each individual worker (unless a health official or medical practitioner advises or requires the worker to re-test);

57 **note** that MSD will administer the STAP using a very high-trust approach, [39]

58 **note** that the STAP will not override an employer's legal obligations under employment law;

59 **note** that MSD's ability to process applications under the STAP will be limited in situations in which applications are open for the WSS or there is a surge in applications for the LSS;

60 **authorise** the Minister of Finance, Minister for Social Development and Employment, and the Minister for Workplace Relations and Safety to make minor policy decisions and clarify eligibility criteria regarding the LSS and STAP if required within the overall policy settings set out in this paper, including:

60.1 to align eligibility settings with public health guidance regarding testing, self-isolation and staying home when sick;

60.2 the implementation date; and

60.3 repayment obligations;

*Legislative implications*

61 **note** that legislation will be required to enable Inland Revenue to deliver the proposed new RSP, with legislation expected to be introduced in early 2021;

62 **note** that legislation will be required to implement the freeze on residential tenancy rent increases and tenancy terminations, with the current expectation being that this legislation will not be progressed unless a shift to Alert Level 4 is imminent;

*Financial recommendations – resurgence package and new STAP*

63 **note** that, as at 4 December 2020, approximately $12.84 billion remains in the CRRF, although there are likely to be upcoming calls on this funding of approximately $2.8 billion, leaving approximately $10 billion, which is sufficient to fund the estimated costs of the proposed resurgence package through multiple resurgence events, based on the estimated fiscal costs of the measures set out at recommendations 5 and 6 above;

64 **agree** that future payments of the WSS could be funded in the first instance from a balance of approximately $1.3 billion remaining in the existing *Business Support Subsidy Covid-19* appropriation in Vote Social Development;

65 **agree** that future payments of the Childcare for Essential Workers support could be met through reprioritisation of funding previously appropriated to Vote Education or through Cabinet approval [33]

66 **direct** Ministry of Education officials to report back to the Minister of Education and the Minister of Finance on the appropriate hourly subsidy rate, the cost of the scheme over a four-week period, and the funding source by the end of March 2021;

67 **authorise** the Minister of Education and the Minister of Finance jointly to agree the appropriate hourly rate and funding option for future payments of the Childcare for Essential Workers support, to avoid delays in the event of an escalation to Alert Level 4 when Cabinet approval will be sought;

68 **agree** to provide Inland Revenue with funding to build the administrative capabilities required to deliver the RSP scheme, ending in 2024/25;

69 **note** that Inland Revenue expects it will need to provide for administrative costs across the period 2020/21 to 2022/2023 while the scheme is in place, whether or not it is activated;

70 **agree** that any underspends for 2023/24 and 2024/25 relating to the funding described at recommendation 68 above be returned to the Centre;

71 **approve** the following changes to appropriations to give effect to the decision in recommendation 68 with a corresponding impact on the operating balance and net core Crown debt:

| | **$ million - increase / (decrease)** | | | | |
|---|---|---|---|---|---|
| **Vote Revenue**<br>**Minister of Revenue** | **2020/21** | **2021/22** | **2022/23** | **2023/24** | **2024/25** |
| Multi-Category Expenses and Capital Expenditure:<br>Services for Customers (MCA)<br><br>Departmental Output Expenses: | | | | | |
| Investigations<br>(funded by revenue Crown) | - | 0.708 | 0.708 | 0.354 | 0.354 |
| Services to Inform the Minister and to Inform the Public about Entitlements and Meeting Obligations<br>(funded by revenue Crown) | - | 1.416 | 1.416 | 0.708 | 0.708 |
| Services to Process Obligations and Entitlements<br>(funded by revenue Crown) | - | 0.876 | 0.876 | 0.438 | 0.438 |
| **Total operating** | **-** | **3.000** | **3.000** | **1.500** | **1.500** |

72 **agree** that the expenses incurred as a result of recommendation 71 be charged against the COVID-19 Response and Recovery Fund (CRRF), established as part of Budget 2020;

73 **note** that the likely cost of the STAP, including administration costs for MSD, is still being determined, but could potentially be very significant if there are high rates of testing, high numbers of people advised to stay home while sick, and there is high take-up of the payment by those eligible;

74 **agree** that the costs of payments under the STAP should be met in the first instance from a balance of approximately $85 million remaining in the existing *COVID-19 Leave Support Scheme* appropriation in Vote Social Development;

75 **direct** officials to report back to the Minister of Finance, the Minister for Workplace Relations and Safety and the Minister for Social Development and Employment with updated fiscal cost estimates including administration costs, based on expected take-up of the LSS and STAP and any required amendments to settings, once the changes to health guidance have been confirmed;

76 **authorise** the Minister of Finance, the Minister for Workplace Relations and Safety and the Minister for Social Development and Employment to agree to new operating funding of up to $10 million for Vote Social Development for the administration of the STAP, with the associated expenses to be charged against the COVID-19 Response and Recovery Fund established as part of Budget 2020, with any further funding required to be sought from Cabinet;

*Preparedness in the near term*

77 **note** that the proposals in this paper relating to the new RSP and STAP and some of the proposed changes to the WSS will not be in place until February 2021 or later;

78 **note** that, should there be a resurgence in the interim, the WSS can be reinstated within approximately five working days;

79 **note** that the Ministry of Social Development is undertaking contingency planning for the Christmas period, and is prepared to implement the WSS over this period if needed;

80 **note** that the decision to escalate Alert Levels in the event of community transmission rests with Ministers with Power to Act [CBC-20-MIN-0096 refers];

81 **authorise** the Minister of Finance and the Minister for Social Development and Employment jointly, in the event of an escalation to Alert Level 3 or above over the Christmas holiday period, to take the necessary decisions to introduce the WSS, with costs to be met in the first instance from a balance of approximately $1.3 billion remaining in the existing Business Support Subsidy COVID-19 appropriation in Vote Social Development; and

82 **agree** that the Minister of Finance and the Minister for Social Development and Employment will jointly seek Cabinet approval for funding to meet the costs of introducing the WSS over the Christmas holiday period, if costs are estimated to exceed the existing balance of appropriated funding described in recommendation 81 above.

Authorised for lodgement

Hon Grant Robertson

**Minister of Finance**

Hon Carmel Sepuloni

**Minister for Social Development and Employment**

Hon David Parker

**Minister of Revenue**

Hon Stuart Nash

**Minister for Small Business**

# The Treasury

## Economic Response to Future Resurgences of COVID-19 Information Release

## March 2021

This document has been proactively released by **Minister of Finance (Hon Grant Robertson)** on the Treasury website at

**https://treasury.govt.nz/publications/information-release/finance-portfolio-cabinet-material**

### Cabinet Document Details

| | |
|---|---|
| Title: | **Cabinet Minute: CAB-20-MIN-0531: Economic Response to Future Resurgence of COVID-19** |
| Date: | **15 December 2020** |
| Creator: | Cabinet Office |

### Information Withheld

Some parts of this information release would not be appropriate to release and, if requested, would be withheld under the Official Information Act 1982 (the Act).

Where this is the case, the relevant sections of the Act that would apply have been identified.

Where information has been withheld, no public interest has been identified that would outweigh the reasons for withholding it.

Key to sections of the Act under which information has been withheld:

[33] 9(2)(f)(iv) - to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials

[38] 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice

[39] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage

Where information has been withheld, a numbered reference to the applicable section of the Act has been made, as listed above. For example, a [39] appearing where information has been withheld in a release document refers to section 9(2)(k).

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# Cabinet

# Minute of Decision



## Economic Response to Future Resurgences of COVID-19

**Portfolios** **Finance / Social Development and Employment / Revenue / Small Business**

On 14 December 2020, Cabinet:

### Background

1 **noted** that, in the event of COVID-19 Alert Level escalations, a comprehensive package of economic support is critical to minimise the associated economic and social impacts, and to support compliance with the public health response;

2 **noted** that the government's economic response to Alert Level escalations so far has been effective, albeit with scope for further improvements;

3 **noted** that communicating in advance a resurgence package to be introduced in the event of future escalations responds to business requests for certainty and allows firms and individuals to better plan;

### Resurgence package measures – summary of proposals

4 **noted** that the package of measures proposed for use in future escalations builds on the existing model and comprises:

4.1 a new Resurgence Support Payment (RSP) to help firms directly impacted by an Alert Level change to cover their fixed costs (such as rent) when transitioning from Alert Level 1 to Alert Level 2 or above;

4.2 an improved Wage Subsidy Scheme (WSS) at Alert Level 3 and above; and

4.3 measures that relate to childcare and residential tenancies at Alert Level 4, with further work on commercial tenancies;

5 **noted** that the indicative fiscal cost of the RSP and WSS in the following Alert Level scenarios is estimated to be:

| Measure | AL2 nationally for four weeks | AL3 nationally for two weeks, AL2 for six weeks |
|---|---|---|
| **Resurgence Support Payment** | $350 million | $450 million |
| **Wage Subsidy Scheme** | N/A | $960 million |

6 **noted** that reintroducing the Childcare for Essential Workers scheme at Alert Level 4 for four weeks is expected to cost [38]

7 **noted** that, as the proposed measures would be introduced only in the event of a future Alert Level escalation, the eventual fiscal cost depends directly on the frequency, duration and severity of any escalations;

8 **noted** that, due to substantial uncertainty around the timing, frequency and duration of any future Alert Level escalations, funding for the resurgence package is not being sought at this time, except for administrative costs;

9 **noted** that, except where an existing appropriation or relevant contingency has been identified, the proposed funding source for the measures, subject to Cabinet approval at the time of an escalation, is the COVID-19 Response and Recovery Fund (CRRF), established as part of Budget 2020;

10 **agreed** to the proposed package of measures set out in paragraph 4 above for use in a future Alert Level escalation, subject to Cabinet approval at that time;

11 **agreed** that the Minister of Finance announce the above package prior to Christmas 2020;

## Resurgence Support Payment scheme – detailed recommendations

12 **noted** that the purpose of the RSP scheme is to complement the WSS and support firms' fixed costs when transitioning from Alert Level 1 to Alert Level 2 or above;

13 **agreed** that the objectives of the RSP scheme be to:

13.1 support firms to maintain viability and employment levels across escalations in public health restrictions;

13.2 support firms to pay fixed costs if they are struggling to do so as a result of escalated Alert Levels;

13.3 share the cost associated with escalated Alert Levels to be shared between government, firms and across economic sectors;

13.4 encourage the shift to a COVID-19 resilient economy;

14 **agreed** that the RSP scheme be administered by Inland Revenue;

15 **agreed** that the RSP scheme will provide a one-off payment to eligible firms in the initial event of an escalation from Alert Level 1 to a higher Alert Level anywhere in New Zealand, subject to approval by Cabinet at the time of an escalation from Alert Level 1 at which the scheme becomes applicable and within the parameters agreed below;

16 **agreed** to the following parameters for the design of the RSP scheme:

16.1 the scheme will be activated after a minimum period of seven days (of which the seventh day may be a partial day) under Alert Level 2 or above;

16.2 the scheme will be available nationally, recognising that supply chain implications occur even when an escalation is limited to a region;

16.3 firms will be eligible if they have experienced a revenue decline of at least 30 percent across a 14-day consecutive period at Alert Level 2 or above (including days at Alert Level 1 if there is a national return to Alert Level 1 within 14 days of the initial escalation);

16.4 eligible firms will declare that, in respect to the declared decline in revenue, they have been affected by a current escalation from Alert Level 1 to Alert Level 2 or above, and that:

16.4.1 the firm attributes the effect to the escalation in Alert Levels that began on the date of the current escalation; and

16.4.2 the effect has led to the decline in revenue that the firm has declared;

16.5 the default comparator period for the RSP revenue tests will be the typical fortnightly revenue in the six weeks prior to the Alert Level escalation that triggered the scheme;

16.6 firms that have highly seasonal revenue will be allowed to use a prior year comparator if they can show the seasonality in their revenue makes it harder to meet the revenue decline test with the default comparator period, than if their revenue were not seasonal;

16.7 the payment rate will be $1,500 per firm and an additional $400 per FTE, with the per-FTE component capped at 50 FTE;

16.8 eligible firms will declare that funds will be repaid if their decline in revenue is found to have been less than 30 percent;

16.9 eligible firms will declare that funds will be applied to business expenses only, including wages, capital expenditure and core operating costs;

16.10 eligible firms will have to be in business for at least six months and declare that they are a ‘viable, ongoing business’;

16.11 the types of organisations that are eligible for the WSS will also be eligible for the RSP, including State sector organisations, pre-revenue firms, sole traders, charities and not-for-profit organisations (who must declare they are a ‘viable, ongoing organisation’);

16.12 the minimum age of an applicant will be 18 years; and

16.13 the scheme will close for applications one month after a national return to Alert Level 1;

17 **noted** that the one payment per firm rule will apply to firms with groups of companies to avoid advantaging such firms or incentivising firms to split their businesses to increase entitlements;

18 **noted** that officials are developing a common definition of revenue across the WSS, Small Business Cashflow Scheme (SBCS) and RSP, and will report back to relevant Joint Ministers before publishing this guidance;

19 **agreed** that firms will be able to receive the RSP alongside other forms of support, including the WSS, Short-Term Absence Payment (STAP), Leave Support Scheme (LSS) and SBCS, and that funding provided through these schemes will not count as revenue for the purposes of the RSP revenue drop test;

20 **agreed** that existing exemptions provided to State sector organisations by the Minister of Finance under the WSS transfer to the RSP;

21 **noted** that firms in receipt of the RSP will not be subject to income tax or be able to claim deductions for expenditure funded by the RSP, and that GST-registered firms will pay GST on the RSP and, in turn, be able to claim input tax deductions for the relevant expenditure;

22 **authorised** the Minister of Finance, the Minister of Revenue and the Minister for Small Business (Joint Ministers for the RSP) to jointly take decisions relating to the further design details and operational matters required to progress the implementation of the RSP, in alignment with the parameters agreed above;

23 **noted** that Inland Revenue estimates that the RSP could be in place by late February 2021 and could be applied retrospectively, subject to the required legislation;

24 **directed** Inland Revenue officials to draft the necessary amendments to the Tax Administration Act 1994 to implement the RSP proposals described above;

## Wage Subsidy Scheme – detailed decisions

25 **agreed** that the government introduce a WSS in the event of an escalation to Alert Level 3 or above, anywhere in New Zealand lasting seven or more consecutive days (of which the seventh day may be a partial day), with the introduction of the scheme subject to approval by Cabinet at the time;

26 **agreed** to provide WSS support to match the duration spent at Alert Level 3 or above, rounded to the nearest 14 days;

27 **noted** that the proposal in paragraph 26 above means that WSS support could exceed or fall short of the total period spent at Alert Level 3 or above by up to one week;

28 **noted** that employers would be able to apply for a two-weekly payment once Ministry of Social Development opened the WSS scheme (which is likely to be within a few days of the seventh day of elevated Alert Levels), and could apply for subsequent two-weekly payments as long as the scheme remains open, subject to paragraph 26 above;

29 **invited** the Minister of Finance and the Minister for Social Development and Employment to report back to Cabinet on this activation approach by June 2021;

30 **invited** the Minister of Finance and the Minister for Social Development and Employment to report back to Cabinet on the continued availability and settings of the WSS if it remains open for more than six consecutive weeks, and every six weeks thereafter;

31 **agreed** to retain core WSS settings, including a revenue drop test of 40 percent, current payment rates, employee retention obligations, pass-through requirements, and the scheme being available on a nationwide basis by default;

32 **noted** that officials are progressing the following minor short-term improvements to WSS integrity:

32.1 increasing visibility and publicity around audit, enforcement and repayments, including through Ministerial communications;

32.2 improving guidance for applicants to reduce error rates and improve automation rates;

32.3 clarifying the drafting of rules under the scheme, including a definition of 'revenue' and eligibility of company groups;

33 **agreed** that to be eligible for the WSS, employers must have been affected by a current escalation to Alert 3 or above, and:

33.1 the firm attributes the effect to the escalation in Alert Levels that began on the date of the current escalation; and

33.2 the effect has led to the decline in revenue that the firm has declared;

34 **noted** that officials will redraft the declaration made by applicants to the WSS to reflect this change;

35 **agreed** that the test period for the WSS revenue decline be revenue over a 14-day period following the escalation to Alert Level 3 (or above), based on actual or predicted revenue;

36 **agreed** that the default comparator period for the WSS revenue tests be the typical fortnightly revenue in the six weeks prior to the Alert Level escalation that triggered the scheme;

37 **agreed** that employers that have highly seasonal revenue be allowed to use a prior year comparator if they can show that the seasonality in their revenue makes it harder to meet the revenue decline test with the default comparator period, than if their revenues were not seasonal;

38 **noted** that it may be necessary to allow exceptions from this proposed default comparator period in complex public health circumstances, such as several Alert Level escalations in quick succession which make it more difficult to identify an appropriate baseline;

39 **noted** that employers are allowed to use the WSS to pay for periods when employees are on annual leave;

40 **noted** that, to address any potential misunderstandings around the interaction between the WSS and employment law, in particular related to the use of annual leave, Ministers and officials will provide prominent and clear explanations and expectations of employment law rights and obligations and promote existing government employment dispute services;

41 **noted** that firms are already required to repay the WSS in a number of situations, and that, due to difficulty in designing a well-targeted repayment rule under the current scheme, no additional repayment rules in relation to firm profit or revenue growth are proposed at this stage;

42 **noted** that Ministers have asked officials, as part of advice on a more enduring WSS, to look at the feasibility of a repayment rule for employers who receive payments under the WSS, then subsequently both lay-off staff and make a profit;

43 **authorised** the Minister of Finance and the Minister for Social Development and Employment jointly to make operational changes, and decisions on minor changes and clarifications to WSS settings, including on any further implementation details for the revenue decline test, test and comparator period (including exceptions to the default period), and reapplication requirements;

## Other resurgence package measures

44 **noted** that further design work and new legislation will be required to reinstate a freeze on residential rent increases and restrictions on tenancy terminations;

45 **agreed** that a freeze on residential rent increases and restrictions on tenancy terminations be reinstated, **subject to** the passage of the required legislation and approval by Cabinet at the time of an escalation to Alert Level 4;

46 **agreed** that an improved Childcare for Essential Workers scheme be introduced, **subject to** approval by Cabinet at the time of an escalation to Alert Level 4;

47 **invited** the Minister of Justice to report back to Cabinet in February 2021 on the matter of commercial lease disputes, [33]

## Support for individuals and whānau

48 **noted** that the government funded a significant number of initiatives from the COVID-19 Response and Recovery Fund to ensure that the safety net for low-income and vulnerable people is robust;

49 **noted** that, in the event of future resurgence, it will be important to ensure that effective and timely support is deployed in partnership with Treaty of Waitangi partners, with trusted local leaders, and community groups;

## Leave Support Scheme and new Short-Term Absence Payment

50 **noted** that the COVID-19 Leave Support Scheme (LSS) continues to remain available at all Alert Levels, and that the LSS promotes compliance with the public health response by supporting workers to stay home and self-isolate in certain situations;

51 **noted** that the Ministry of Health is proposing to amend public health guidance, which will clarify that everyone who gets a COVID-19 test (other than those without symptoms that are taking part in routine or surveillance testing) should be asked to stay at home while awaiting the result;

52 **noted** that a review of the LSS has identified a need to expand the situations in which financial support is available to support compliance, and to address inefficiencies;

53 **agreed** to address these issues by introducing a one-off COVID-19 Short-Term Absence Payment (STAP) of $350, available to eligible employers (including self-employed workers) to support them in paying workers who:

53.1 legally work in New Zealand; and

53.2 cannot work from home; and either

53.3 need to miss a shift or more from work to stay home while awaiting a test result in accordance with either public health guidance or requirements; or

53.4 are the parent or caregiver of a dependant who needs to stay home while waiting for a test result and needs support to do so safely, and the parent or caregiver needs to miss a shift or more of work while supporting their dependant;

54 **agreed** that workers currently covered by the two-week LSS while awaiting a test result would no longer be eligible for the two-week LSS payment in the first instance and would instead be eligible for the STAP, but that, provided they meet the other criteria, could move onto the LSS if required;

55 **noted** that the payment will not cover:

55.1 employers in respect of workers who are not legally working in New Zealand;

55.2 businesses registered or operating outside New Zealand;

55.3 employers, including self-employed people, who are receiving a WSS or LSS payment for that named worker at that time;

55.4 workers who can work from home;

55.5 workers who have routine testing in their workplace, such as border workers and MIQ workers (unless they are symptomatic);

55.6 non-symptomatic people participating in surveillance testing;

55.7 people staying in managed isolation facilities;

55.8 New Zealanders who are currently overseas;

55.9 State sector organisations (including State Owned Enterprises), except where an exception has been granted in relation to the WSS or LSS; or

55.10 workers of entities other than registered business, sole traders, self-employed persons, registered charities, incorporated societies, non-government organisations, or post settlement governance entities;

56 **agreed** that employers are able to apply a maximum of once in any thirty-day period for the STAP for each individual worker (unless a health official or medical practitioner advises or requires the worker to re-test);

57 **noted** that the Ministry of Social Development will administer the STAP using a very high-trust approach, [39]

58 **noted** that the STAP will not override an employer's legal obligations under employment law;

59 **noted** that the Ministry of Social Development's ability to process applications under the STAP will be limited in situations in which applications are open for the WSS or there is a surge in applications for the LSS;

60 **authorised** the Minister of Finance, the Minister for Social Development and Employment, and the Minister for Workplace Relations and Safety to make minor policy decisions and clarify eligibility criteria regarding the LSS and STAP if required within the overall policy settings set out in the paper under CAB-2-SUB-0531, including:

60.1 to align eligibility settings with public health guidance regarding testing, self-isolation and staying home when sick;

60.2 the implementation date; and

60.3 repayment obligations;

## Legislative implications

61 **noted** that legislation will be required to enable Inland Revenue to deliver the proposed new RSP, with legislation expected to be introduced in early 2021;

62 **noted** that legislation will be required to implement the freeze on residential tenancy rent increases and tenancy terminations, with the current expectation being that this legislation will not be progressed unless a shift to Alert Level 4 is imminent;

## Financial implications – resurgence package and new STAP

63 **noted** that, as at 4 December 2020, approximately $12.84 billion remains in the CRRF, although there are likely to be upcoming calls on this funding of approximately $2.8 billion, leaving approximately $10 billion, which is sufficient to fund the estimated costs of the proposed resurgence package through multiple resurgence events, based on the estimated fiscal costs of the measures set out at paragraphs 5 and 6 above;

64 **agreed** that future payments of the WSS could be funded in the first instance from a balance of approximately $1.3 billion remaining in the existing Business Support Subsidy COVID-19 appropriation in Vote Social Development;

65 **agreed** that future payments of the Childcare for Essential Workers support could be met through reprioritisation of funding previously appropriated to Vote Education or through Cabinet approval [33]

66 **directed** Ministry of Education officials to report back to the Minister of Education and the Minister of Finance by the end of March 2021 on the appropriate hourly subsidy rate, the cost of the scheme over a four-week period, and the funding source;

67 **authorised** the Minister of Education and the Minister of Finance jointly to agree the appropriate hourly rate and funding option for future payments of the Childcare for Essential Workers support, to avoid delays in the event of an escalation to Alert Level 4 when Cabinet approval will be sought;

68 **agreed** to provide Inland Revenue with funding to build the administrative capabilities required to deliver the RSP scheme, ending in 2024/25;

69 **noted** that Inland Revenue expects it will need to provide for administrative costs across the period 2020/21 to 2022/2023 while the scheme is in place, whether or not it is activated;

70 **agreed** that any underspends for 2023/24 and 2024/25 relating to the funding described at paragraph 68 above be returned to the Centre;

71 **approved** the following changes to appropriations to give effect to the decision in paragraph 68 above, with a corresponding impact on the operating balance and net core Crown debt:

| | $ million - increase / (decrease) | | | | |
|---|---|---|---|---|---|
| **Vote Revenue**<br>**Minister of Revenue** | **2020/21** | **2021/22** | **2022/23** | **2023/24** | **2024/25** |
| Multi-Category Expenses and Capital Expenditure:<br>Services for Customers (MCA)<br>Departmental Output Expenses: | | | | | |
| Investigations<br>(funded by revenue Crown) | - | 0.708 | 0.708 | 0.354 | 0.354 |
| Services to Inform the Minister and to Inform the Public about Entitlements and Meeting Obligations<br>(funded by revenue Crown) | - | 1.416 | 1.416 | 0.708 | 0.708 |
| Services to Process Obligations and Entitlements<br>(funded by revenue Crown) | - | 0.876 | 0.876 | 0.438 | 0.438 |
| **Total operating** | **-** | **3.000** | **3.000** | **1.500** | **1.500** |

72 **agreed** that the expenses incurred under paragraph 71 above be charged against the CRRF, established as part of Budget 2020;

73 **noted** that the likely cost of the STAP, including administration costs for the Ministry of Social Development, is still being determined, but could potentially be very significant if there are high rates of testing, high numbers of people advised to stay home while sick, and there is high take-up of the payment by those eligible;

74 **agreed** that the costs of payments under the STAP should be met in the first instance from a balance of approximately $85 million remaining in the existing COVID-19 Leave Support Scheme appropriation in Vote Social Development;

75 **directed** officials to report back to the Minister of Finance, the Minister for Workplace Relations and Safety and the Minister for Social Development and Employment with updated fiscal cost estimates, including administration costs, based on expected take-up of the LSS and STAP and any required amendments to settings, once the changes to health guidance have been confirmed;

76 **authorised** the Minister of Finance, the Minister for Workplace Relations and Safety and the Minister for Social Development and Employment to agree to new operating funding of up to $10 million for Vote Social Development for the administration of the STAP, with the associated expenses to be charged against the CRFF established as part of Budget 2020, with any further funding required to be sought from Cabinet;

## Preparedness in the near term

77 **noted** that the proposals in the paper under CAB-20-SUB-0531 relating to the new RSP and STAP and some of the proposed changes to the WSS will not be in place until February 2021 or later;

78 **noted** that, should there be a resurgence in the interim, the WSS can be reinstated within approximately five working days;

79 **noted** that the Ministry of Social Development is undertaking contingency planning for the Christmas 2020 period, and is prepared to implement the WSS over this period if needed;

80 **noted** that the decision to escalate Alert Levels in the event of community transmission rests with Ministers with Power to Act [CBC-20-MIN-0096];

81 **authorised** the Minister of Finance and the Minister for Social Development and Employment jointly, in the event of an escalation to Alert Level 3 or above over the Christmas 2020 holiday period, to take the necessary decisions to introduce the WSS, with costs to be met in the first instance from a balance of approximately $1.3 billion remaining in the existing Business Support Subsidy COVID-19 appropriation in Vote Social Development;

82 **invited** the Minister of Finance and the Minister for Social Development and Employment jointly to seek Cabinet approval for funding to meet the costs of introducing the WSS over the Christmas 2020 holiday period, if costs are estimated to exceed the existing balance of appropriated funding described in paragraph 81 above.

Michael Webster
Secretary of the Cabinet

Inland Revenue
Te Tari Taake

POLICY AND STRATEGY

TE TAI ŌHANGA
THE TREASURY

## Tax policy report: Further Decisions for the Resurgence Support Payment

| | | | |
|---|---|---|---|
| **Date:** | 19 January 2021 | **Priority:** | Medium |
| **Security level:** | In Confidence | **Report number:** | IR2021/010<br>T2021/059<br>MBIE2021/1986 |

## Action sought

| | Action sought | Deadline |
|---|---|---|
| Minister of Finance | **Agree** to recommendations | 22 January 2021 |
| Minister of Revenue | **Agree** to recommendations | 22 January 2021 |
| Minister for Small Business | **Agree** to recommendations | 22 January 2021 |
| | | |

## Contact for telephone discussion (if required)

| Name | Position | Telephone |
|---|---|---|
| Emma Grigg | Policy Director | s 9(2)(a) |
| Richard Braae | Principal Policy Advisor | |

**In Confidence**

19 January 2021

Minister of Finance
Minister of Revenue
Minister for Small Business

## Further decisions on the Resurgence Support Payment

### Executive summary

1. This report seeks agreement to certain features of the Resurgence Support Payment (RSP).

2. Cabinet agreed [CAB-20-MIN-0531] to introduce a new RSP to help firms directly impacted by an escalation from Alert Level 1 to Alert Level 2 or higher.

3. Cabinet authorised you - the Ministers of Finance, Revenue and for Small Business - to jointly take decisions relating to further design details.

4. This report seeks your agreement to the following proposals:

   - That the level of the RSP will be adjusted for low revenue firms
   - That names of RSP recipients will not be published
   - That provision of an NZBN is mandatory for applicants.

5. The report also informs you of various minor design decisions that Inland Revenue has taken in designing the scheme.

## Recommended action

We recommend that you:

| | | Minister of Finance | Minister of Revenue | Minister for Small Business |
|---|---|---|---|---|
| 6. | **agree** to cap the amount of RSP at two times the fortnightly drop in revenue that an applicant has signalled in its application | Agreed<br><br>Not agreed | Agreed<br><br>Not agreed | Agreed<br><br>Not agreed |
| 7. | **agree** that the names of RSP recipients will not be published | Agreed<br><br>Not agreed | Agreed<br><br>Not agreed | Agreed<br><br>Not agreed |
| 8. | **agree** that provision of an NZBN is a mandatory part of the application process | Agreed<br><br>Not agreed | Agreed<br><br>Not agreed | Agreed<br><br>Not agreed |

s 9(2)(a)

**Jean le Roux**
Manager
Transitions, Regions and
Economic Development
Treasury

**Emma Grigg**
Policy Director
Policy and Strategy
Inland Revenue

**John Doorbar**
Acting General Manager
Small Businesses and
Strategic Programmes
MBIE

**Hon Grant Robertson**
Minister of Finance
/ /2021

**Hon David Parker**
Minister of Revenue
/ /2021

**Hon Stuart Nash**
Minister for Small Business
/ /2021

## Background

9. This report seeks agreement to certain features of the Resurgence Support Payment (RSP).

10. Cabinet agreed [CAB-20-MIN-0531] to introduce a new RSP to help firms directly impacted by an escalation from Alert Level 1 to Alert Level 2 or higher.

11. Cabinet has agreed the main parameters of the scheme, including:

- The RSP will be a one-off payment to offset businesses' increased costs when public health restrictions are imposed and provide cashflow support.
- Firms will be eligible if they have experienced a revenue decline of at least 30% across a 14-day period at Alert Level 2 or above and the firm attributes the decline to the increase in Alert Levels
- The payment will be $1,500 per firm plus $400 per FTE, with the FTE component capped at 50 FTEs – meaning a maximum of $21,500
- Inland Revenue will implement the RSP.

12. Inland Revenue is currently building the scheme. In doing so, various issues have been identified that require resolution.

13. Cabinet authorised you - the Ministers of Finance, Revenue and for Small Business - to jointly take decisions relating to further design details.

14. This report seeks your agreement to proposals relating to:

- Whether the payment amount of the RSP is adjusted for low revenue firms
- Whether the names of RSP recipients will be published
- Whether a New Zealand Business Number should be mandatory for applicants.

15. The report also informs you of various minor design decisions that Inland Revenue has taken in designing the scheme.

## Low revenue firms

16. The decisions establishing the RSP (and associated public communication) have not imposed any minimum revenue rules for applicants.

17. Some low revenue firms may gain disproportionately from the RSP, in excess of their needs to meet fixed costs and transition costs. For example, if a sole trader sells items at a weekend market and earns $300 per week, they will suffer a 100% revenue drop if the market is shut at Alert Level 2 and would be entitled to $1,900 from the RSP. If the market were closed for 3 weeks, they would have suffered a $900 fall in revenue. A similar issue could arise in the case of an individual making a small supplementary income as, for instance, an Uber driver.

18. The argument against adjusting the scheme to address the issue is that it would add complexity to the scheme. Stakeholder feedback on the wage subsidy and small business cashflow scheme has consistently raised the importance on take-up of simplicity in scheme design. Feedback suggests the risk of loss of engagement with support schemes as complexity increases affects Maori and Pacific populations more so than others.

19. On balance, however, officials recommend an adjustment for low revenue businesses whereby the amount of payment is capped at two times the fortnightly drop in revenue that the applicant has signalled in its application. This means the amount a firm receives will be the lower of the formula amount ($1,500 plus $400 per FTE) or two times the fortnightly drop in revenue.

20. There is no exact science to choosing a suitable payment amount. Providing twice the revenue drop experienced by firms will likely be sufficient for most affected firms for the length of time in Alert Level 2, without being disproportionately generous.

21. Calibrating the RSP amount in this way is likely to reduce the payment for 25% of applicants, given the uptake amongst small firms and sole traders is likely to be high. We estimate the fiscal savings from this adjustment to be $30-50 million, depending on the severity of the resurgence event. Introducing this adjustment could avoid undermining social license for the scheme arising from applicants receiving a windfall gain as a result of the country going into Alert Level 2.

22. Almost all of the firms receiving a lesser payment amount as a result of this change are expected to be sole traders or firms with 1 – 3 employees. The proposed cap is expected to affect a very small number of medium-sized firms which have low revenue for their size.

23. We have considered cases where the uneven time profile of a firm’s revenue could result in them receiving a lesser payment under the RSP, and note that the application process and guidance provides enough flexibility for the needs of legitimately impacted firms to be met.

24. We consider it preferable to address low revenue firms in this way rather than imposing a revenue floor and excluding firms earning below that level, as such an approach could incentivise gaming around that boundary and lead to the exclusion of legitimate claims.

25. Such an approach will not require any additional effort by applicants. To support the integrity of the scheme, Inland Revenue will require applicants to state their revenue in the COVID-affected fortnight and their revenue in the comparator fortnight. The payment amount they would be eligible for can be automatically calculated as part of their application process. As such, the transaction cost to a firm in accessing the scheme is not increased by the proposed change.

## Name publication

26. A feature of the wage subsidy scheme (WSS) is that the names of recipients are published for integrity reasons. However, this does not apply to recipients of the small business cashflow scheme (SBCS).

27. There are arguments for and against publishing the names of recipients of the RSP.

28. The fact that it is a grant rather than a loan, points to the WSS providing the stronger precedent.

29. However, there are features of the RSP that distinguish it from the WSS.

30. Recipients of the WSS have an obligation to pass the payment on as wages. Name publication serves as an integrity measure in that employees are able to check whether their employer has received the WSS and therefore has an obligation not to lay them off. There is no such requirement with the RSP.

31. Also, payments for the RSP are capped at 50 FTEs, meaning the maximum amount that can be received is $21,500. In contrast, some WSS recipients received well over $1 million.

32. Finally, we note that the Ministry of Social Development has opted not to publish WSS recipients with one or two employees, as a result of privacy and ethical issues associated with publishing the names of very small businesses.

33. If the distribution of recipients of the RSP matches that of the WSS, not publishing recipients with one or two employees would exclude over half the recipients.

34. For these reasons, officials recommend not publishing the names of RSP recipients.

## Provision of New Zealand Business Numbers (NZBNs)

35. It is a requirement of the SBCS that applicants provide their New Zealand Business Number (NZBN). This has provided some modest integrity benefits for the scheme within the overall context of it being a high trust scheme. It has also driven uptake of NZBN and promoted the use of NZBNs by businesses in other interactions with Government and businesses. This will have long term benefits as these sorts of interactions become increasingly digital, for which use of the NZBN is desirable.

36. It is proposed that a similar requirement is adopted for the RSP.

37. If Ministers agree, Inland Revenue will incorporate this requirement into the application process. Inland Revenue will provide a link from the application screen to the NZBN site that lets an applicant check an existing NZBN or obtain one.

38. Most applicants to the RSP will already have an NZBN as "registered" organisations, such as companies, charitable trusts and incorporated societies, automatically have one.

39. Those that do not already have an NZBN can apply for one online. The online application process is automated and 80% of applicants receive their NZBN immediately. The remaining 20% require manual intervention, usually because there is a discrepancy in the identity information that they have supplied. Because applicants to the RSP must wait at least 14 days after the start of Alert Level 2 (to establish their actual revenue drop), any delay in receiving the NZBN need not delay application for the RSP.

40. NZBNs are regulated under the New Zealand Business Number Act 2016. This Act provides that requiring entities to provide an NZBN needs to be authorised by an Order in Council. Officials will prepare the application for this Order in Council for the Minister for Small Business to submit to Cabinet.

## Decisions taken by Inland Revenue

41. In developing the RSP, Inland Revenue has taken the following decisions relating to the scheme's design.

### *Intermediaries*

42. Inland Revenue will allow tax agents to apply on behalf of their clients, subject to the agent declaring they have the authority to do so and holding evidence of their authority. This differs from the SBCS where tax agents are not permitted to apply on behalf of their clients. That restriction is because, being a loan, Inland Revenue needs the applicant to commit to repayment. This issue does not arise with the RSP.

### *Definition of passive income*

43. The definition of revenue, for the purpose of satisfying the revenue drop text, will exclude all residential and commercial rents, along with interest and dividends. This

is the simplest approach, which will assist in providing clear guidance to applicants. Although some potential applicants may be "actively in business" as a landlord, Inland Revenue considers that the likelihood of these firms meeting the revenue drop test is low, given they would hold a portfolio of properties. Accordingly, it does not consider their exclusion will have a material impact on applicants' eligibility for the RSP.

### *Interest on repayments*

44. Inland Revenue will charge interest where an applicant is required to repay the RSP (for instance, for making a false declaration). This is a deterrence measure. Though criminal prosecution will be available in the case of false declarations, such a step is resource intensive and may not be cost-effective in all cases. The prospect of interest charges will buttress the threat of prosecution.

45. Interest will be charged at the UOMI rate from when the funds are received.

### *Calculation of Full Time Equivalent Employees (FTEs)*

46. FTEs will be calculated the same way as for the SBCS. Applicants will assign their employees to full time or part time status depending on whether they usually work more than 20 hours per week. For calculating FTEs, a part timer will count as 0.6 of an FTE. The total number of FTEs will be rounded up to the next whole number.

47. This methodology was criticised by some potential recipients of the SBCS as it caused their FTE total to exceed 50 and they were therefore ineligible for the SBCS. However, because the RSP is capped at 50 FTEs rather than setting 50 FTEs as a hard boundary, this complaint is unlikely to arise.

### *Bank accounts for receiving the RSP*

48. Inland Revenue will only pay the RSP to a New Zealand bank account. This is the same approach as adopted for the SBCS.

### *Repayment not required if applicant receives insurance*

49. The wage subsidy requires an applicant to repay the subsidy if it receives insurance to cover any costs covered by the subsidy. This is not the intention for the RSP. However, the Cabinet paper is ambiguous on this point. For clarity, Inland Revenue will not require repayment if an insurance payment is received, but repayment will be required if the conditions of the grant are not met, such as the applicant not having experienced the declared revenue decline or the decline not being linked to the escalation in Alert Levels.

## Consultation

50. The development of the RSP and associated Cabinet paper was informed by consultation with The Chartered Accountants Australia and New Zealand, the Corporate Taxpayers Group and Business New Zealand. Previously there had been consultation on the COVID-related support measures with a wider group, including community groups. However, no specific consultation has occurred relating to the issues set out in this report.

## Next steps

51. Inland Revenue will incorporate Ministers' decisions into the design of the RSP.

52. Inland Revenue is on track for the scheme being ready to implement at the end of February. Officials are preparing the legislation and related materials that will enable the scheme to be activated. It is expected that the legislation will be passed under urgency in mid-February. Should there be a period at Alert Level 2 or higher before then, there will be an option to implement the RSP in respect of this earlier period once the legislation is passed.

Inland Revenue
Te Tari Taake

POLICY AND STRATEGY

TE TAI ŌHANGA
THE TREASURY

**Tax policy report:** **Draft Cabinet paper – Taxation (COVID-19 Resurgence Support Payments and Other Matters) Bill: Approval for introduction**

| | | | |
|---|---|---|---|
| **Date:** | 29 January 2021 | **Priority:** | High |
| **Security level:** | In Confidence | **Report number:** | IR2021/034<br>T2020/132 |

## Action sought

| | Action sought | Deadline |
|---|---|---|
| Minister of Finance | **Note** the contents of the report and attachments<br>**Sign and refer** the lodgement of the attached Cabinet paper to Cabinet Office<br>**Refer** to the Minister for Small Business | 10am, 3 February 2021 |
| Minister of Revenue | **Note** the contents of the report and attachments<br>**Sign and refer** the lodgement of the attached Cabinet paper to Cabinet Office<br>**Refer** to the Minister for Small Business | 10am, 3 February 2021 |

## Contact for telephone discussion (if required)

| Name | Position | Telephone |
|---|---|---|
| Peter Frawley | Policy Lead – Inland Revenue | s 9(2)(a) |
| Jean Le Roux | Manager – Transitions, Regions and Economic Development, The Treasury | |

29 January 2021

Minister of Finance
Minister of Revenue

## Draft Cabinet paper – Taxation (COVID-19 Resurgence Support Payments and Other Matters) Bill: Approval for introduction

1. This report asks you to approve and lodge the attached Cabinet paper and accompanying draft disclosure statement and Supplementary Analysis Report with the Cabinet Office by 10am Wednesday 3 February 2021 for consideration at the Cabinet Business Committee meeting on 10 February 2021.

2. The Cabinet paper seeks approval to introduce the Taxation (COVID-19 Resurgence Support Payments and Other Matters) Bill on 16 February 2021 and recommends that it is passed under urgency.

3. A draft disclosure statement is attached to accompany the Cabinet Paper in accordance with Cabinet guidelines. The draft disclosure statement is referred to Cabinet along with the Cabinet paper. The disclosure statement is finalised by Inland Revenue with the Parliamentary Counsel Office three days before the introduction of the Bill and is made public when the Bill is introduced.

4. The Supplementary Analysis Report has been provided as the Resurgence Support Payment (RSP) proposal was not submitted with a regulatory impact assessment when considered by Cabinet.

5. A draft of the commentary is also attached to this report. It will be published when the Bill is introduced.

6. The Bill contains the items listed below.

### Policy items approved by Cabinet

- COVID-19 Resurgence Support Payment (CAB-20-MIN-0531 refers).
- Adjustment to the Minimum Family Tax Credit (CAB-20-MIN-0512 refers).

### Policy items approved by Joint Ministers for the Resurgence Support Payment

7. As part of Cabinet approval of the COVID-19 Resurgence Support Payment, Cabinet delegated authority to the Minister of Finance, Minister of Revenue and Minister for Small Business to make decisions relating to design and operational details.

8. You have taken decisions relating to low revenue firms and name publication – *Further Decisions for the Resurgence Support Payment* (18 January 2021, IR2021/10, refers).

### Implementation of the RSP

9. Once legislation is passed, the scheme can be activated via an Order in Council in the event of an Alert Level change. The scheme will be in place and able to be activated from Tuesday 23 February. If activated, applications will be able to be received and processed on 23 February, with payments to firms within 24 hours to most firms.

10. If alert levels escalate before 9 February 2021, businesses may need to wait longer than originally intended to apply for the payment. (Normally, businesses may apply when alert levels are escalated for 14 days, subject to Cabinet decision.) This may impact the smallest firms; however, the impact is mitigated if alert levels do not increase to AL3 or AL4. Businesses may use any 14-day period after the alert level escalation as their revenue drop period (within the bounds of eligibility criteria).

## Recommended action

We recommend that you:

11. **note** the contents of this report and attached Cabinet paper, draft Bill, draft disclosure statement, draft commentary and Supplementary Analysis Report;

| | |
|---|---|
| Noted | Noted |

12. **sign** and **refer** the Cabinet paper, to the Cabinet Office by 10 am Wednesday 3 February 2021;

| | |
|---|---|
| Signed and referred/Not signed and referred | Signed and referred/Not signed and referred |

13. **Refer** a copy of this report and attached documents to the Minister for Small Business for his information.

| | |
|---|---|
| Referred/Not referred | Referred/Not referred |

s 9(2)(a)

| | |
|---|---|
| **Jean Le Roux** | **Peter Frawley** |
| Manager | Policy Lead |
| The Treasury | Policy and Strategy, Inland Revenue |

| | |
|---|---|
| **Hon Grant Robertson** | **Hon David Parker** |
| Minister of Finance | Minister of Revenue |
| / /2021 | / /2021 |

**11.**

In Confidence

Minister of Finance

Minister of Revenue

Chair, Cabinet Business Committee

# TAXATION (COVID-19 RESURGENCE SUPPORT PAYMENTS AND OTHER MATTERS) BILL: APPROVAL FOR INTRODUCTION

## Proposal

1. This paper seeks the Cabinet Business Committee's agreement to introduce the Taxation (COVID-19 Resurgence Support Payments and Other Matters) Bill on or after 16 February 2021. The Bill introduces amendments to the:

    1.1 Income Tax Act 2007;

    1.2 Tax Administration Act 1994;

2. The Taxation (COVID-19 Resurgence Support Payments and Other Matters) Bill has been recommended to hold a category 2 priority on the 2021 Legislative Programme (to be passed in the year).

## Policy

3. The Bill will implement the policy changes previously agreed to by Cabinet to introduce the Resurgence Support Payment and to adjust the Minimum Family Tax Credit threshold. A Bill is necessary as amendments to existing legislation are required to implement the proposed policy changes.

#### Policy Items with Cabinet Approval

***Resurgence Support Payment (CAB-20-MIN-0531, 14 December 2020 refers)***

4. The Resurgence Support Payment (RSP), approved by Cabinet on 14 December 2020 will provide financial support to firms in the event of an Alert Level change from Level 1 to Level 2 or higher. This will help firms cover their fixed costs in the event of an escalation in public health restrictions from Alert Level 1. Cabinet agreed the payment will provide support of $1,500 per firm and an additional $400 per-FTE, with the per-FTE component capped at 50 FTE. Firms will be required to show that the lift in alert levels has caused a decline in revenue of at least 30% in order to be eligible for the payment.

5. Cabinet also delegated authority to the Joint Ministers for the RSP (the Minister of Finance, the Minister of Revenue and the Minister for Small Business) to make

decisions relating to further design details and operational matters. The most significant of these decisions are:

5.1 Capping the amount that can be received by firms to prevent disproportionate gains by low revenue firms. Firms will receive the lower of:

5.1.1 the formula amount ($1,500 and an additional $400 per FTE), or,

5.1.2 two times the fortnightly drop in revenue.

5.2 Allowing the publication of the names of recipients with three or more employees.

5.3 Requiring that applicants provide their New Zealand Business Numbers.

6. Subject to legislation being enacted, Inland Revenue have advised that the scheme will be in place and able to be activated from Tuesday 23 February. The scheme can be activated via an Order in Council in the event of an Alert Level change.

***Adjustment to the Minimum Family Tax Credit (CAB-20-MIN-0512, 7 December 2020 refers)***

7. The Minimum Family Tax credit seeks to ensure that families do not suffer a reduction in income when moving off benefit into paid work. Cabinet agreed to changes to the abatement thresholds for main benefits on 7 December 2020, with effect from 1 April 2021. As a consequence of this change, the MFTC threshold will need to be adjusted from 1 April 2021. Legislation needs to be in place before 23 February to allow Inland Revenue to make the communications and process changes to allow the increased MFTC to take effect from 1 April 2021.

8. The agreed MFTC change is a partial increase, which will cover approximately 90% of the MFTC recipient population. Partially, rather than fully increasing the MFTC rate represents a change in policy and could result in the perception of a relative reduction in the MFTC rate. This change may be contentious as there will be some current recipients of the MFTC who would receive more income on a main benefit rather than in work.

## Financial Implications

9. There are no direct fiscal implications with the introduction and enactment of the Bill.

10. Cabinet previously agreed that any financial implications resulting from activating the RSP would be charged against the COVID Response and Recovery Fund (CRRF) (CAB-20-MIN-0531 refers). Agreement to implement the scheme and approval of the funding to meet the associated costs will be sought through Cabinet in the event that the activation threshold is met.

11. Financial implications for the adjustment to the MFTC were previously agreed by Cabinet (CAB-20-MIN-0512 refers).

## Impact Analysis

12. A regulatory impact assessment was prepared for the change to the MFTC rate. This was submitted at the time that Cabinet Committee approval for the policy change was sought.

13. The Resurgence Support Payment did not have a Regulatory Impact Statement provided when considered by Cabinet. The relevant Treasury policy team and Regulatory Quality team agreed at the time that a Supplementary Analysis Report would be completed and provided to Cabinet in February 2021. This is attached. A joint Regulatory Impact Analysis quality assurance panel with representatives from the Treasury and Inland Revenue has reviewed the Supplementary Analysis Report "Resurgence Support Payment Supplementary Analysis Report" produced by the Treasury and Inland Revenue, dated 28 January 2021. The panel considers that it **meets** the Cabinet requirements to support its decision.

## Compliance

14. The Bill complies with:

    14.1 the principles of the Treaty of Waitangi;

    14.2 the rights and freedoms contained in the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993;

    14.3 the disclosure statement requirements (the draft disclosure statement is attached);

    14.4 the principles and guidelines set out in the Privacy Act 2020;

    14.5 relevant international standards and obligations;

    14.6 the *Legislation Guidelines* (2018 edition), which are maintained by the Legislation Design and Advisory Committee.

## Consultation

15. The proposed RSP was subject to public and other consultation as part of consultation in developing a resurgence package. Due to time and budget constraints the MFTC change was not subject to any public consultation.

#### Relevant Government Departments or Other Public Bodies

16. As part of the policy development, The Treasury, Ministry of Social Development, Inland Revenue, Ministry of Business Innovation and Employment, Ministry of Health, Ministry of Education, Ministry of Justice, Ministry of Housing and Urban Development, and Department of Prime Minister and Cabinet (COVID-19 group, Child Poverty Unit and Policy Advisory Group) were consulted on the policy proposals in this paper.

**Relevant Private Sector Organisations and Public Consultation Processes**

17. Officials engaged with Business New Zealand, the New Zealand Council of Trade Unions, the Auckland Chamber of Commerce, the Corporate Taxpayers Group, the Chartered Accountants Australia and New Zealand, and Māori and Pacific business leaders in developing the resurgence package, in the process of developing the RSP. Stakeholders were broadly supportive of the approach to create greater certainty on the landscape of government support, and particularly welcoming of measures that address non-wage costs.

18. There was strong feedback that the integrity of the schemes will be critical, with both Māori and Pacific business leaders raising concerns about possible gaming of the Wage Subsidy Scheme by large firms. It was suggested that the communications approach to the package should be accompanied by clear guidance to maximise accessibility of the schemes, and partnership with trusted community partners would also aid access.

## Binding on the Crown

19. The Income Tax Act 2007 and Tax Administration Act 1994 are binding on the Crown. The amendments will follow the position of the principal Acts.

20. The legislation will not create a new agency.

21. The legislation will not amend the existing coverage of the Ombudsman Act 1975, the Official Information Act 1982, or the Local Government Official Information and Meetings Act 1987.

## Allocation of Decision Making Powers

22. The draft legislation does not involve the allocation of decision-making powers between the executive, the courts, and tribunals.

## Associated Regulations

23. The Bill proposes that the RSP would be activated by the Governor-General by Order in Council. This regulation making power has been proposed to allow Cabinet to activate the payment in the event that the activation criteria are met.

## Other Instruments

24. Other than the Order in Council, the proposed Bill does not include any provision empowering the making of other instruments that are deemed to be legislative instruments or disallowable instruments.

## Definition of Minister/Department

25. The Bill does not contain a definition of Minister, department, or chief executive.

## Commencement of Legislation

26. The Bill will come into force on the date that it receives Royal assent, with the exception of the MFTC rate change, which will come into force 1 April 2021.

## Parliamentary Stages

27. The Bill should be introduced on or after 16 February 2021 and passed through all stages under urgency. We propose the Bill be enacted by 21 February to ensure the resurgence support payment is in place by 23 February in the event of a resurgence of COVID-19. It will also give Inland Revenue sufficient time to make systems and communications changes to ensure that the MFTC increase is able to occur from 1 April 2021.

## Communications

28. We will make an announcement about the proposals in the Bill when it is introduced. A commentary on the Bill will also be released at this time. Inland Revenue will include details of the new legislation in a *Tax Information Bulletin* after the Bill is enacted. The Minister for Social Development and Employment will need to announce the benefit abatement changes before the bill is introduced because the MFTC change is a consequence of these changes.

## Proactive Release

29. We propose to proactively release this Cabinet paper, associated minutes, and key advice papers with appropriate redactions within 30 working days of Cabinet making final decisions.

## Recommendations

We recommend that Cabinet:

1. **note** that the Taxation (Pandemic Resurgence Support Payments and Other Matters) Bill holds a category 2 priority on the 2021 Legislative Programme (to be passed in the year);

2. **note** that the Bill makes substantive amendments to the:

    2.1 Income Tax Act 2007;

    2.2 Tax Administration Act 1994;

3. **approve** the Taxation (COVID-19 Resurgence Support Payments and Other Matters) Bill for introduction, subject to the final approval of the government caucus and sufficient support in the House of Representatives;

4. **agree** that the Bill be introduced on or after 16 February 2021;

5. **agree** that the government propose that the Bill be:

    5.1 Passed under urgency

5.2 Enacted by 21 February 2021.

Authorised for lodgement

Hon Grant Robertson
Minister of Finance

Hon David Parker
Minister of Revenue

# Coversheet: Resurgence Support Payment Supplementary Analysis Report

| | |
|---|---|
| Advising agencies | The Treasury, Inland Revenue |
| Decision sought | *Note the analysis in this report.* |
| Proposing Ministers | Minister of Finance, Minister of Revenue |

## Summary: Problem and Proposed Approach

| **Problem Definition**<br>**What problem or opportunity does this proposal seek to address? Why is Government intervention required?** |
|---|
| *Summarise in one or two sentences* |
| COVID-19 related public health restrictions at Alert Level 2 or above can create short and severe economic shocks. Cumulatively, they stress firm balance sheets and risk delivering unequitable outcomes. The effects of these shocks on firm revenue, coupled with uncertainty of the nature of Government support in the event of a virus resurgence, risks higher unemployment and firm failure as firms are disincentivised from or unable to employ people or invest. |

**Summary of Preferred Option or Conclusion (if no preferred option)**

**How will the agency's preferred approach work to bring about the desired change? Why is this the preferred option? Why is it feasible? Is the preferred approach likely to be reflected in the Cabinet paper?**

*Summarise in one or two sentences*

The recommended approach was to introduce and pre-announce a new one-off Resurgence Support Payment (RSP) available to all firms in the event of an increase from Alert Level 1 to Alert Level 2, 3, or 4. The recommended sub-options were:

- To make the RSP available to all firms that experience a drop in revenue of 30% or more over a 14-day period as a result of higher Alert Level restrictions; and
- To pay the lesser of:
  - $1500 plus $400 per full-time employee (FTE) (up to a cap of 50); or,
  - Two times the experienced drop in revenue over the 14-day period.

These options were preferred because they:

- allow businesses to better plan ahead;
- meant the RSP would be readily deployable by Inland Revenue in the event it is needed (following the passing of legislation and building the system);
- are fiscally sustainable;
- cushion the economic blow of higher Alert Levels to firms, limiting scarring effects;

- support the transition up Alert Levels, boosting social licence for public health regulations;
- encourage the shift to a more COVID-19 resilient economy;
- ensure that some low revenue firms do not gain disproportionately from the RSP, in excess of their needs to meet fixed costs and transition costs; and
- target vulnerable but viable firms.

## Section B: Summary Impacts: Benefits and costs

**Who are the main expected beneficiaries and what is the nature of the expected benefit?**

*Monetised and non-monetised benefits*

The RSP will support the national effort to eliminate COVID-19, for the benefit of all New Zealanders.

The RSP provides additional financial support to firms to allow them to continue to meet fixed costs and cover costs associated with an escalation of Alert Levels, and quickly continue operations as soon as Alert Level restrictions allow. In turn, this benefits individuals employed by those firms.

Whilst the Payment is available to all businesses, SMEs are the main financial beneficiaries. This recognises that the vast majority of businesses in New Zealand employ fewer than 50 people, and that smaller firms are less resilient to economic shocks than larger businesses.

However, it is important to recognise that while larger firms are more resilient on average, larger firms can need support too. Not allowing large firms to access this form of support would disadvantage firms just on the cut-off, such as firms with 51 employees. This could make it harder for these firms to survive and may incentivise them to get rid of staff in order to become eligible, which we do not want to encourage. For this reason, the RSP will be available to firms of all sizes.

**Where do the costs fall?**

*Monetised and non-monetised costs; for example to local government or regulated parties*

The fiscal costs fall to the Crown, however Treasury analysis suggests the long-term fiscal, economic and social impacts of no action would likely be greater.

**What are the likely risks and unintended impacts? How significant are they and how will they be minimised or mitigated?**

Compressed timelines create policy development, delivery, and communications risks, which could lead to:

- payments being more widely available than is efficient, or being paid to unviable firms, at unnecessary fiscal cost;
- damaging the social capital that is critical for the success of the COVID-19 public health strategy; and
- business confusion around the access to the scheme, meaning firms may lose out on support they are entitled to.

The main mitigations we have undertaken include:

- to agree, via Joint Ministers and Cabinet, detailed design rules in order to enable Inland Revenue to build the scheme at pace with as much certainty as possible;

| | |
|---|---|
| - | a series of measures to boost the integrity of the scheme and minimise gaming risks; |
| - | taking a co-ordinated cross-Government approach to communications; |
| - | engaging with external business stakeholders to inform the design of the scheme and promote its availability, ensuring the widest audiences are reached. |

## Section C: Evidence certainty and quality assurance

**Agency rating of evidence certainty?**

*How confident are you of the evidence base?*

Evidence drawn on to inform the design of the RSP include:

**Regular, detailed qualitative engagement with the business community and monitoring of the effectiveness of existing supports**

Evidence was consistent from a diverse range of groups that:

- greater certainty about the nature of government support in the event of a resurgence was critical, which led the decision to announce the support would be available in advance of any escalation of Alert Levels;
- firm balance sheets in the most affected sectors were increasingly stressed; and
- additional debt products were less appropriate.

Evaluation of the uptake of the Small Business Cashflow Scheme (SBCS) also evidenced the waning appetite for debt. The Payment was therefore designed as a grant.

**Real-time transaction data, which showed the impacts of Alert Level on revenue**

- Xero data on revenue drops experienced by firms month-to-month throughout 2020 informed our understanding of Alert Level impacts.[1]
- This, alongside information on uptake of the various wage subsidies, allowed us to estimate the number of firms facing significant revenue drops at different Alert Levels and led to the 30% revenue drop test.

**Survey data on firms' cost structures and cash reserves**

- The Annual Enterprise Survey (AES)[2] provided insight into the fixed, variable, and wage costs usually faced by firms of varying size, allowing us to understand the scale of need when normal revenue streams are disrupted.
- This gave quantitative support to insights gathered through stakeholder engagement about the difficulty in meeting fixed costs under higher Alert Level restrictions.
- Better 4 Business (B4B)[3] research into firms' cash reserves also echoed messages from stakeholders concerning balance sheet stress and eroded financial resilience.

This evidence supported the case for grant-based support.

**Modelling and analysis of the macro and microeconomic impacts of Alert Levels on the economy.**

[1] The data provided was anonymised and aggregated to prevent the identification of businesses that are customers of Xero

[2] Carried out by Stats NZ, the AES measures the financial performance and position of New Zealand businesses.

[3] B4B is part of the Ministry of Business, Innovation and Employment. It carries out research on business health. The latest research is available here: https://www.betterforbusiness.govt.nz/resources-2/

| | |
|---|---|
| - | The Treasury prepared estimates of economic activity under different Alert Levels for each industry at regular intervals during 2020, updating the analysis as new data became available. |
| - | These estimates were initially assumption-driven, based on macroeconomic data, and were updated as new data (including high frequency indicators and information on the uptake of the Government's financial support) enabled re-examination of previous assumptions. |
| - | The Treasury also commissioned modelling of the impacts of border closure and Alert Level settings on sectors and regions of the economy, which was conclusive in demonstrating impacts across all sectors and particularly acute effects on tourism and hospitality firms. This analysis is not yet published. |

*To be completed by quality assurers:*

| Quality Assurance Reviewing Agency: |
|---|
| A joint Regulatory Impact Analysis quality assurance panel with representatives from the Treasury and Inland Revenue has reviewed the Supplementary Analysis Report for the above legislative/regulatory proposal in accordance with the quality assurance criteria set out in the CabGuide. |
| **Quality Assurance Assessment:** |
| A joint Regulatory Impact Analysis quality assurance panel with representatives from the Treasury and Inland Revenue has reviewed the Supplementary Analysis Report "Resurgence Support Payment Supplementary Analysis Report" produced by the Treasury and Inland Revenue, dated 28 January 2021. The panel considers that it **meets** the Cabinet requirements to support its decision. |
| **Reviewer Comments and Recommendations:** |
| No further comments. |

# Supplementary Analysis: Resurgence Support Payment

## Section 1: General information

| 1.1 Purpose |
|---|
| |
| The Treasury and Inland Revenue are solely responsible for the analysis and advice set out in this Regulatory Impact Statement, except as otherwise explicitly indicated. This analysis and advice has been produced for the purpose of informing:<br>• stakeholders to be consulted on a government exposure draft of planned legislation (amendments to the Tax Administration Act 1994)<br>• final decisions to proceed with a policy change to be taken by or on behalf of Cabinet |

## 1.2 Key Limitations or Constraints on Analysis

a) *What issues are in or out of scope? e.g., Ministers may already have ruled out certain issues.*

b) *What are the limitations on the range of options considered and the criteria used to assess options?*

The RSP was recommended following direction from the Minister of Finance to deploy a new economic response initiative that was limited in scope to support the transition of viable firms to new economic settings; be flexible to support firms in higher Alert Level settings, be fiscally sustainable; and readily deployable. This limited the options to forms of support that could reach affected businesses quickly, and therefore risk issuing payments to firms who may not always need it. However, the criteria used to assess options indicated that in order to mitigate potential economic scarring effects, and with tight application criteria built in, this was a worthwhile trade-off.

c) *What limitations exist in relation to the evidence of the problem?*

d) *What is the quality of data used for impact analysis?*

e) *What limitations may there have been on consultation and testing?*

The Treasury engaged with a diverse range of business groups throughout 2020, including on the specific design parameters of a new Payment in the run up to preparing the Cabinet Paper.

Those consulted on the RSP design included Business New Zealand, the Council of Trade Unions, the Auckland Chamber of Commerce, the Corporate Taxpayers Group, the Chartered Accountants Australia and New Zealand, and Māori and Pacific business leaders.

In addition to the pace with which consultation was undertaken, a limitation of this evidence continues to be the significant uncertainty around global events and changing, potentially unpredictable domestic conditions.

Notwithstanding this uncertainty (which is detailed in the Treasury's Pre-election Economic and Fiscal Update and Half-Year Economic Update publications), the Treasury's assessment of the impacts of Alert Level restrictions on economic activity and the related risks to aggregate firm solvency over potential series of virus outbreaks led to the conclusion that there was a gap in the support available.

This assessment was informed by data from sources including the aforementioned AES, B2B surveys, Xero, and other modelling. The Treasury judges the quality of this data to be both high and comprehensive.

f) *What are the limitations on the assumptions underpinning the impact analysis?*

We assume that patterns of revenue impact experienced by firms are broadly consistent with those seen in periods of elevated Alert Levels throughout 2020. As such, we assume that the take up of the Payment would be broadly in line with that of other forms of COVID-19 financial support tools to date, including the Wage Subsidy (WSS) and SBCS. Whilst the design of the Payment reflects the greater information available than when the pandemic first began, the uncertainty related to the nature of any future COVID-19 outbreak means the impacts may be different each time.

## 1.3 Responsible Manager (signature and date):

s 9(2)(a)

[redacted]

Jean Le Roux

Transitions, Regions and Economic Development

Growth, Productivity and Services Directorate

The Treasury

28 January 2021

# Section 2: Problem definition and objectives

## 2.1 What is the current state within which action is proposed?

*Set out the current state, e.g.,*

*Nature of the market; Industry structure; Social context; Environmental state.*

The Treasury's Pre-election Economic and Fiscal Update provided the context in which the advice on the RSP was developed. The subsequent Half-Year Economic Update was published on 17 December 2020.

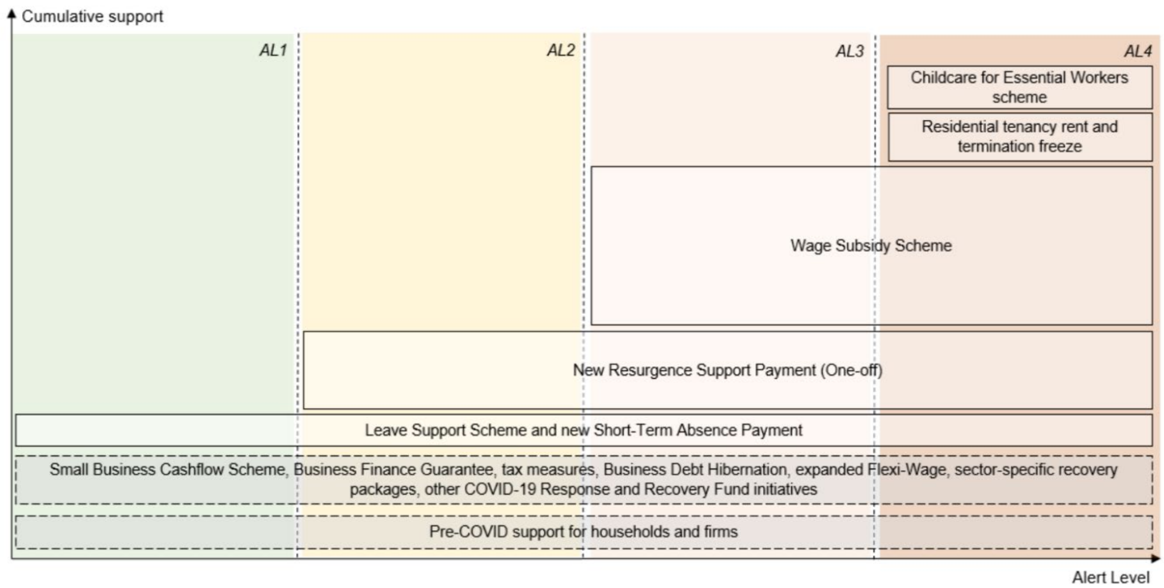
Both documents underline that the COVID-19 pandemic continues to cause widespread economic and social disruption around the world, and the effectiveness and timing of the distribution of vaccines were still unclear at the time of writing.

Both reports present a central scenario wherein New Zealand's border restrictions ease from 1 July 2021 and will lift from 1 January 2022, alongside alternative scenarios attempting to benchmark possible downside scenarios. In the meantime, New Zealanders should be prepared for the potential that whilst most of the economy will operate normally the majority of the time, Alert Levels may temporarily escalate.

## 2.2 What regulatory system(s) are already in place?

- *What are the key features of the regulatory system(s), including any existing regulation or government interventions/programmes? What are its objectives?*

The below diagram summarises the economic support landscape as of January 2021, including with the addition of the RSP, at different Alert Levels. The suite of interventions support the Government's first overarching objective to keep New Zealanders safe from COVID-19, including by protecting jobs and livelihoods, and strengthening the economy. It does so by ensuring a package of financial support is in place for businesses and individuals in the event of Alert Level escalations following future resurgences of COVID-19 in the community, with the aim of limiting the economic and social impacts if outbreaks occur. It also seeks to reduce the risk of resurgences by supporting workers to stay home when sick. These goals are complementary, as protecting New Zealanders from the virus will also support economic activity resuming quickly after any outbreaks.



- *Why is Government regulation preferable to private arrangements in this area?*

Public health restrictions attempt to provide protection from COVD-19; firmly an intervention that should and could only be undertaken by government. However, the economic costs of the public health restrictions (such as Alert Level changes), land upon individuals and businesses. It is appropriate for government to share some of these costs, consistent with the provision of public goods.

The Treasury's latest estimates that the negative impacts to GDP from Alert Level restrictions (relative to pre-pandemic levels) are:

- -25% to -30% at Alert Level 4
- -15% to -20% at Alert Level 3
- -6% to -10% at Alert Level 2
- -3% to -5% at Alert Level 1.

These are significant impacts with distributional consequences and scarring effects that require interventions at a scale only the Government can provide via broad-based support.

- *Has the overall fitness-for-purpose of the system as a whole been assessed? When and with what result? What interdependencies or connections are there to other existing issues or on-going work?*

Part of the rationale for the introduction of a new RSP at Alert Level 2 was to fill a gap in the support available to businesses as the cumulative impacts of higher public health restrictions added additional stress to balance sheets.

In designing the intervention, officials attempted to achieve consistency between the RSP, WSS and the SBCS, where sensible, so as to reduce business confusion.

This is reflected in a number of the settings proposed above for the RSP, including many of the settings relating to business declarations and business eligibility.

There are other settings that are not in alignment. Some are based on policy grounds, such as the differing revenue drop thresholds under the RSP and WSS reflecting the schemes' different purposes at different Alert Levels. Others are based on the fact that there will be different agencies implementing the schemes, with different system capabilities and different approaches to achieving necessary scheme integrity.

## 2.3 What is the policy problem or opportunity?

- *How is the situation expected to develop if no further action is taken, and why is this a problem? (This is the basis for comparing options against each other).*
- *What is the nature, scope and scale of the loss or harm being experienced, or the opportunity for improvement? How important is this to the achievement (or not) of the overall system objectives?*
- *What is the underlying cause of the problem? Why cannot individuals or firms be expected to sort it out themselves under existing arrangements?*
- *How robust is the evidence supporting this assessment?*

The estimated negative impacts from Alert Level restrictions (relative to pre-pandemic levels) described in box 2.2 are significant, with distributional consequences and scarring effects that require interventions at a scale only the Government can provide through broad-based support.

We know that Alert Level restrictions have an uneven impact across industries. Industries that find it costly to adapt operations for delivery under Alert Level settings, given the general necessity of in-person, on-site service provision, are under significant pressure. "Essential Services" definitions were used to form a view of which firms were able to operate at the higher Alert Levels. This assessment leveraged off work that was being undertaken by MBIE during the early stages of the COVID response to assess demand for Personal Protection Equipment (PPE) across essential industries, as well as work that was done between Treasury and MBIE on assessing uptake of the WSS.

On top of this, firms suffer from the wider demand-side shocks due to reduced tourism activity, the decline in people movement, and economic conditions. Aggregate demand impacts from border closure particularly reduce demand for tourism-related industries such as accommodation, recreational activities etc. Statistics NZ Tourism Satellite Account information was used to inform a view on which industries were most impacted and the relative importance of international vs domestic tourism.

The Treasury also commissioned modelling of the impacts of border closure and Alert Level settings on sectors and regions of the economy, which was conclusive in demonstrating impacts across all sectors and particularly acute effects on tourism and hospitality firms.

## 2.4 What do stakeholders think about the problem?

- *Who are the stakeholders? What is the nature of their interest?*
- *Which stakeholders share the Agency's view of the problem and its causes?*
- *Which stakeholders do not share the Agency's view in this regard and why?*

The Treasury engaged with Business New Zealand, the Council of Trade Unions, the Auckland Chamber of Commerce, and Pacific, Māori and Iwi business leaders in developing the RSP. Inland Revenue also engaged with the Corporate Taxpayers Group and the Chartered Accountants Australia and New Zealand. Their interest in the Payment was on behalf of business owners and employees throughout New Zealand.

The engagement followed several months of conversations between the Treasury and business stakeholders on the impacts of higher Alert Levels and border settings on different sectors. There was extremely strong consensus from across the spectrum that providing greater certainty on the nature of Government support in the event higher Alert Levels were in place would be critical for businesses to plan and right-size smoothly. The RSP responded to this consistent message.

Stakeholders were broadly supportive of the approach to create greater certainty on the landscape of government support, and particularly welcoming of measures that would address non-wage costs in addition to the costs covered by the WSS.

There was strong feedback that the integrity of the schemes will be critical, with both Māori and Pacific business leaders raising concerns about possible gaming of support available. It was suggested that the communications approach to the package should be accompanied with clear guidance to maximise accessibility of the schemes, and partnerships with trusted community channels would aid access to the schemes and be critical in helping SMEs – which would likely be most vulnerable – prepare now for future outbreaks. Officials are using this feedback to inform the communications strategy.

## 2.5 What are the objectives sought in relation to the identified problem?

- Objectives must be clear and not pre-justify a particular solution. They should be specified broadly enough to allow consideration of all relevant alternative solutions.
- Where there are multiple policy objectives it should be clear how trade-offs between competing objectives are going to be made and the weightings given to objectives – not just those in direct conflict.
- For further guidance, see 2.3 of the Guidance Note on Best Practice Analysis https://treasury.govt.nz/sites/default/files/2018-03/ia-bestprac-guidance-note.pdf

The purpose of the RSP is to provide support for businesses' to meet fixed costs and costs when transitioning from Alert Level 1 to Alert Level 2 or above, in a fiscally sustainable way. The objectives, which formed the criteria against which different options were assessed, are as follows:

a) Support firms to maintain viability and employment levels across escalations in public health restrictions;

b) Support firms to pay fixed costs (such as rent) if they are struggling to do so as a result of escalated Alert Levels;

c) Share the cost associated with escalated Alert Levels between Government, firms and across economic sectors; and

d) Encourage the shift to a COVID-19 resilient economy.

This required the following scheme attributes, which informed the selection of options (see section 3):

- Resilience to different public health scenarios
- Providing business certainty, so firms can better plan ahead
- Complementarity with existing schemes; and
- Fiscal sustainability.

*Trade-offs*

In order to support firms to maintain viability and employment levels (objective (a)), there will necessarily be payments made to some firms who would survive anyway, and others that may not have been viable in the medium term (see objective (d)). However, from a fairness perspective, there is a case to equally share the cost of the exogenous shock provided by the pandemic (c). The critical weighting here is in favour of mitigating scarring economic effects for the long-term benefit of all New Zealanders, and designing a scheme that is resilient / can pay out quickly (see box 3.1). The Payment was therefore designed to be available to all firms but with design features built in to target the most affected and those with the fewest resources to respond to the restricted market settings created by higher Alert Levels.

## Section 3: Option identification

### 3.1 What options are available to address the problem?

- *List and describe the key features of the options. Set out how each would address the problem or opportunity, and deliver the objectives identified.*
- *How has consultation affected these options?*
- *Are the options mutually exclusive, or do they or some of them work in combination?*
- *Have non-regulatory options been considered? If not, why not?*
- *What relevant experience from other countries has been considered?*

The first-order options were as follows:

**A. Front-loaded WSS-based scheme**

*Lump sum worth 2 weeks of the wage subsidy paid for every change in AL to firms meeting a 40% revenue drop test, with a labour market attachment requirement:*

***Assessment:*** maintains employment but does not address other costs associated with Alert Level escalation; 40% threshold aligned with WSS but likely too high at Alert Level 2; fiscally expensive.

**B. Amended WSS-based scheme**

*As above, but restricting payments to escalations in ALs only, and allowing only one payment every four weeks.*

***Assessment:*** *potentially less frequent payments may do more to encourage transition, but challenges of option A remain.*

**C. Lump-sum AL2+ grant [this was the recommended and agreed approach]**

*Adapted form of options A&B that is:*

1. *Less generous per FTE, with a per-firm and per-FTE component to reflect fixed costs;*
2. *Subject to a less onerous revenue drop test, to reflect impact of AL2 on businesses;*
3. *Paid every time there is an escalation from AL1 to AL2 or above; and*
4. *Without a labour market attachment condition, but firms would declare they are viable.*

***Assessment:*** *responds to business feedback that more support was needed for fixed costs (e.g. rent); less generous, thereby better facilitating transition and potentially more equitably sharing the cost between Government and the private sector.*

**D. Ongoing AL2+ grant**

*As (C), but paid on an ongoing basis for every week a region or nation is at AL2 or above*

***Assessment:*** *benefits of Option C but less likely to facilitate transition, fiscally expensive.*

**E. Time-limited AL2+ grant**

*As (D), but with a fixed number of weeks that a firm can claim for over the life of the scheme.*

***Assessment*** *similar to (D); greater cushioning provided for firms than (C) but more expensive.*

The Treasury also considered grants directly aimed at hospitality firms and others directly identified in public health regulations as needing to make adaptations in order to meet social distancing and hygiene requirements. This was ruled out due to the considerable boundary issues involved in categorising businesses by strict sectors.

Option **C** was recommended in light of its strengths in delivering the overall objectives described in **box 2.5** above.

The **sub-options** that were consequently considered, which are largely mutually exclusive, are as follows:

**The public health settings that would trigger the scheme's activation**

Based on the above objectives, we recommended that any new grant scheme should be available to businesses based on an escalation to AL2 or higher. This ties the duration of any payments to the time at which many businesses will continue to face substantial cost from public health restrictions.

In the event that such an escalation is in one region, the case for only starting the scheme in that region was considered.

Regional targeting would pose operational challenges – for example, firms that are registered in a different place to their economic activity, or subject to spillovers from restrictions in a neighbouring region. Those challenges mean that regional targeting will come with hard boundary cases, and would create operational difficulties for IR, though it is technically feasible.

As an alternative, there was an option for Ministers to choose to turn the scheme on nationally or by region in the given circumstance. Given that this could undermine business certainty on the support received, which was a significant part of the policy aim informed by consultation, it was concluded that a commitment to provide the RSP when a region or the country was at AL2 or above would be subject to final Cabinet approval at the time of an escalation event.

**Whether to make the support time-limited, or an ongoing grant at certain Alert Levels**

The key strategic choice was between supporting firms to adapt to the new restrictions through a one-off or time limited payment, or maintaining as many existing firms or jobs as possible by providing ongoing, certain, support for the remainder of the pandemic. The former approach was judged to best support the objectives, in light of the greater fiscal sustainability associated with one-off payments; likelihood of supporting fewer non-viable firms; and potential to incentivise a transition to new market conditions.

**The conditions under which firms would be eligible**

Whilst all means of delivering targeted sector or viable firm support are imperfect, on balance, we recommended taking a similar approach to the Wage Subsidy Scheme and relied on a revenue-drop test. This is because:

- It identifies those firms and sectors most affected by AL2 restrictions, whether that is due to the direct impact of public health restrictions or supply chain spill-overs; and
- It is well understood by businesses as a common means of determining eligibility for COVID-19 support measures.

The alternative identified was to specifically target firms that are subject to specific public health requirements by virtue of providing food and drink for on-premises consumption (hospitality). Treasury's judgement, having consulted with delivery partners, is that doing so would be exceptionally challenging to define, audit, or operationalise; would create very difficult boundary issues for businesses to navigate and understand; and would create very high levels of customer contact and confusion.

**The means of calculating the grant value**

A grant to firms should be fiscally sustainable and ideally account for the fixed costs that firms face which scale relatively slowly with firm size and are hard to adjust quickly (such as rent and utilities), and variable costs that can adjust more quickly (such as wages and the transition costs associated with Alert Level changes).

In order to achieve this, we recommended that a grant value has a fixed and variable component using FTE[4] employees as a measure of firm size and variable costs.

*Grant = base value per firm + ( FTE payment * FTE)*

To ensure that some low revenue firms do not gain disproportionately from the RSP, we also recommended a design mechanism whereby the amount of payment is capped at two times the fortnightly drop in revenue that the applicant has signalled in its application. This approach means the amount a firm receives will be the lower of the formula amount ($1,500 plus $400 per FTE) or two times the fortnightly drop in revenue. The Treasury estimated this would save a total of $30-50m in fiscal costs.

We also explored alternative ways of setting a grant relative to a firm's size (for example, on the basis of a firm's revenue or balance sheet), but doing so poses substantial operational challenges and would be more complex for businesses.

**Whether to restrict the grant to SMEs.**

Larger firms have stronger balance sheets and access to credit and cash buffers, and the value of the payment will be much less material to their business decisions. However, the fiscal impact of providing the RSP to all firms without a cap on FTE was estimated to be relatively low (given that the base value was a substantial proportion of the cost, and there are very few large firms in New Zealand). On balance, it was preferred to cap the amount of the RSP to firms at the equivalent of a payment to firms with 50 FTE, similar to the original design of the Wage Subsidy, which has the benefits of equal treatment in approach to supporting all businesses.

This was also supported by feedback gathered in consultation with stakeholders across the business community, who provided advice that the support would have strongest effect for SMEs.

*Have non-regulatory options been considered? If not, why not? What relevant experience from other countries has been considered?*

The Treasury explored whether demand-led schemes could be viable to support objectives including (a) and (d) above. It examined the UK's 'Eat Out to Help Out' scheme, which subsidised meals out. It was concluded that the scheme would run counter to the public health goals at higher Alert Levels to subsidise and therefore incentivise eating out.

The IMF's *Policies for the Recovery* published in October 2020 was also considered. The publication recommended fiscal strategies including "cash or in-kind transfers to support transition and target those in need, in the event of partial opening", which supported the case for the approach taken to designing the RSP.

In addition, the Treasury engaged with officials in Australia to share ideas on building support schemes which targeted vulnerable but viable firms.

[4] FTEs are determined in the same way as for the Wage Subsidy and SBCS: a full time worker is one who regularly works 20 or more hours a week. A part time worker is one who regularly works fewer than 20 hours a week. A part time worker is calculated as 0.6 of a full time worker. The total from classifying all employees is rounded up to the nearest FTE.

**3.2 What criteria, in addition to monetary costs and benefits have been used to assess the likely impacts of the options under consideration?**

**3.3 What other options have been ruled out of scope, or not considered, and why?**

- *Comment on relationships between the criteria, for example where meeting one criterion can only be achieved at the expense of another (trade-offs)*

Note: sections **3.2 and 3.3 from the original template are combined** as the answers are strongly related.

The desired impacts are directly related to the objectives of the RSP:

a) Support firms to maintain viability and employment levels across escalations in public health restrictions;

b) Support firms to pay fixed costs if they are struggling to do so as a result of escalated Alert Levels;

c) Share the cost associated with escalated Alert Levels between Government, firms and across economic sectors; and

d) Encourage the shift to a COVID-19 resilient economy.

It was considered that grant-based support was more likely to support businesses to maintain viability and employment levels than debt-based alternatives, whilst being fiscally sustainable (given the quantum of funding set aside to respond to resurgence events if needed).

Whilst debt based support may help firms manage immediate cash flow issues, it can become restrictive and delay investment in transition as they divert cash from growth activities to financing costs.

Furthermore, firms are likely to be more risk averse than the Crown, which pools risk and has a large balance sheet, a long time horizon, and a public interest perspective.

An additional part of the rationale for the RSP in delivering the above objectives relates to the impacts on social license for the public health response.

Whilst the available evidence demonstrated a broadly high level of compliance with the public health restrictions during the outbreaks in 2020 (for example, traffic flows were much lower as a result of AL3 in Auckland), there was some evidence that the high degree of social capital that supported compliance with the longer national lockdown waned. In addition, at the time of designing the Payment, there was emerging evidence that compliance with restrictions overseas was waning, especially in cases where the economic support was judged to be insufficiently generous to incentivise people to self-isolate rather than work.

It was concluded that economic response measures can play a key role in maintaining ongoing social license for public health restrictions, both in compensating individuals for their compliance with restrictions, minimising the impact on jobs and economic wellbeing, and reinforcing social solidarity. Whilst this is a difficult impact to measure and accurately attribute to economic support, the counterfactual would be a significant risk to the health and wellbeing of all New Zealanders.

# Section 4: Impact Analysis

**Marginal impact: How does each of the options identified in section 3.1 compare with taking no action under each of the criteria set out in section 3.2?** *Add or subtract columns and rows as necessary.*

| **Second-order design choice (see also box 3.1)** | | **Association with AL settings** | | **Payment format** | | **Eligibility** | | **Firm size** | |
|---|---|---|---|---|---|---|---|---|---|
| | **No action** | Pay on escalation to AL2 or higher | Pay businesses in an affected region or sector only | Ongoing throughout duration of AL | One-off, scaled to normal revenue levels | Revenue drop test | Firms subject to specific public health requirements | All firms but cap support at 50 FTE | No cap on FTE |
| Maintain viability and employment levels when ALs increase | **0** | ++ Scale of firms supported limits scarring effects | + Targeting intention likely to encounter significant boundary issues (e.g. ignores supply chain interdependencies) | ++ Greater fiscal generosity likely to assist labour attachment and maintain firm viability. | + May not be enough in light of prolonged impacts of higher ALs | ++ All affected firms benefit; boundary cases diminished | + Targeted approach supports most affected by public health Orders, but with boundary and administrative issues | ++ Firms with <50 FTEs make up vast majority of NZ businesses. | + Marginal impact diminishes with marginal increase in FTE as larger firms likely to have stronger balance sheets and access to credit/cash buffers. |
| Support firms to pay fixed costs if they are struggling to do so as a result of escalated Alert Levels | **0** | ++ Reflects the evidence that higher ALs have significant impacts on most firms' revenue. | | | | | | | |
| Share the cost associated with escalated Alert Levels between Government, firms | **0** | | | + Risks delaying firms' transition to new market conditions if | ++ Limiting support encourages firms to plan ahead | ++ Reflects that smaller businesses have fewer resources to | | ++ Reflects that smaller businesses have fewer resources to | |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| and across economic sectors; | | | | Government pays indefinitely. | and right-size to reflect new market conditions. The suggested formula approach is fiscally sustainable and scaled according to need. | address the costs | | address the costs | |
| Encourage the shift to a COVID-19 resilient economy | **0** | ++ Smooths the path to new market conditions whilst mitigating scarring effects. | + Boundary issues mean some firms may benefit from a smoother transition than others, which raises questions of fairness. | | | ++ Smooths the path to new market conditions whilst mitigating scarring effects. | +/- Boundary issues mean some firms may benefit from a smoother transition than others, which raises questions of fairness. | ++ Reflects that smaller businesses have fewer resources to shift to new market conditions without significantly reducing employment | |
| **Overall assessment** | | ++ | + | + | ++ | ++ | +/- | ++ | + |

**Key:**

| | |
|---|---|
| ++ | much better than doing nothing/the status quo |
| + | better than doing nothing/the status quo |
| **0** | about the same as doing nothing/the status quo |
| - | worse than doing nothing/the status quo |
| - - | much worse than doing nothing/the status quo |

## Section 5: Conclusions

**5.1 What option, or combination of options is likely to best address the problem, meet the policy objectives and deliver the highest net benefits?**

The recommended approach was to introduce and pre-announce a new one-off Resurgence Support Payment available to all firms in the event of an increase from Alert Level 1 to Alert Level 2, 3, or 4. The recommended sub-options were:

- To make the Payment available to all firms that experience a drop in revenue of 30% or more over a 14-day period as a result of higher Alert Level restrictions; and
- To pay the lesser of:
  - $1500 plus $400 per full-time employee (FTE) (up to a cap of 50), or,
  - Two times the experienced drop in revenue.

These options were preferred because they:

- allow businesses to better plan ahead;
- meant the RSP would be readily deployable by Inland Revenue in the event it is needed (following the passing of legislation and building the system);
- are fiscally sustainable;
- cushion the economic blow of higher Alert Levels to firms, limiting scarring effects;
- support the transition up Alert Levels, boosting social licence for public health regulations;
- encourage the shift to a more COVID-19 resilient economy;
- ensure that some low revenue firms do not gain disproportionately from the RSP, in excess of their needs to meet fixed costs and transition costs; and
- target vulnerable but viable firms.

This approach was informed through consultation with Business New Zealand, the Council of Trade Unions, the Auckland Chamber of Commerce, and Pacific, Māori and Iwi business leaders in developing the RSP. Inland Revenue also engaged with the Corporate Taxpayers Group and the Chartered Accountants Australia and New Zealand.

The engagement on the specific design aspects of the RSP followed several months' of conversations between the Treasury and these stakeholders on the impacts of higher Alert Levels and border settings on different sectors. There was extremely strong consensus from across the spectrum that providing greater certainty on the nature of Government support in the event higher Alert Levels were in place would be critical for businesses to plan and right-size smoothly. The RSP responded to this consistent message.

Stakeholders were broadly supportive of the approach to create greater certainty on the landscape of government support, and particularly welcoming of measures that would address non-wage costs in addition to the costs covered by the Wage Subsidy Scheme. There was strong feedback that the integrity of the schemes will be critical, with both Māori and Pacific business leaders raising concerns about possible gaming of support available. It was suggested that the communications approach to the package should be accompanied with clear guidance to maximise accessibility of the schemes, and partnerships with trusted community channels would aid access to the schemes and be critical in helping SMEs – which would likely be most vulnerable – prepare now for future outbreaks. This feedback has fed into the policy design and operational implementation of the Payment.

## 5.2 Summary table of costs and benefits of the preferred approach

| **Affected parties** *(identify)* | **Comment**: *nature of cost or benefit (eg, ongoing, one-off), evidence and assumption (eg, compliance rates), risks* | **Impact** *$m present value where appropriate, for monetised impacts; high, medium or low for non-monetised impacts* | **Evidence certainty** *(High, medium or low)* |
|---|---|---|---|
| **Additional costs of proposed approach compared to taking no action** | | | |
| Regulated parties (businesses) | Administrative costs of application and navigating more complex financial support environment | Marginal; not possible to quantify. | High |
| Regulators | Operational funding required for Inland Revenue | Uncertain; depends on nature of resurgence event. | High |
| Wider government | Increased complexity of business support landscape across government | Fiscal cost dependent on nature of outbreak. $320m estimated for AL2 nationally; $400m if AL3 nationally. | Medium |
| Other parties | | | |
| **Total Monetised Cost** | | Uncertain (see above) | High |
| **Non-monetised costs** | | Low | Medium |
| **Expected benefits of proposed approach compared to taking no action** | | | |
| Regulated parties | Support firms to pay fixed costs if they are struggling to do so as a result of escalated Alert Levels | The lesser of:<br>• $1500+($400*FTE) up to 50 FTE, or<br>• two times the firm's experienced revenue drop over the fortnight | High |
| Regulators | Can contribute to improved tax morale. Also can improve tax compliance by bringing more people into the tax net. | Not possible to quantify. | |
| Wider government | Benefits to the long-term public finances from mitigating scarring effects of reduced demand | Uncertain; depends on nature of resurgence event. | High |
| Other parties | | | |
| **Total Monetised Benefit** | | Uncertain (see calculations in above box). | |
| **Non-monetised benefits** | | High | Uncertain |

| 5.3 What other impacts is this approach likely to have? |
| --- |
| • *Other likely impacts which cannot be included in the table above, eg, because they cannot readily be assigned to a specific stakeholder group, or they cannot clearly be described as costs or benefits*<br>• *Potential risks and uncertainties* |
| The counterfactual of not providing this support is unknown. However, the analysis sighted in this report indicates that the scarring effects attached to the risks of not cushioning the blow could be significant, with distributional consequences. We therefore judge that the provision of the RSP has potential to support the social license and capital needed to maintain a robust public health response, for the benefit of all New Zealanders. |

# Section 6: Implementation and operation

## 6.1 How will the new arrangements work in practice?

- *When will the arrangements come into effect? Does this allow sufficient preparation time for regulated parties?*

- *How could the preferred option be given effect? E.g.,*
  - *legislative vehicle*
  - *communications*
  - *transitional arrangements.*

The RSP will be given effect through amendments to the Tax Administration Act 1994, scheduled to be introduced in February 2021.

The RSP was announced on 15 December 2020 and information on eligibility is available on a range of government websites. Cabinet has agreed retrospective payments will be possible in the event there is a resurgence prior to the application opening date, and subject to the legislation being passed.

In addition, engagement with key business groups including those representing Māori and Pasifika businesses will be pursued in order to ensure a maximum number of firms are aware of the support available.

Inland Revenue will be responsible for the ongoing operation and enforcement of the RSP.

*Have the responsible parties confirmed, or identified any concerns with their ability to implement it in a manner consistent with the Government's 'Expectations for regulatory stewardship by government agencies'? See* https://treasury.govt.nz/information-and-services/regulation/regulatory-stewardship/good-regulatory-practice

Inland Revenue has not identified any concerns with its ability to implement the new arrangements.

*How will other agencies with a substantive interest in the relevant regulatory system or stakeholders be involved in the implementation and/or operation?*

Design decisions have been delegated by Cabinet to relevant Joint Ministers, including the Minister of Finance, Minister of Revenue, and Minister for Small Business. Interdependencies with complementary support programmes such as the Wage Subsidy are regularly under review by the Treasury, IR and MSD.

## 6.2 What are the implementation risks?

- *What issues concerning implementation have been raised through consultation and how will these be addressed?*
- *What are the underlying assumptions or uncertainties, for example about stakeholder motivations and capabilities?*
- *How will risks be mitigated?*

Compressed timelines create delivery and communications risks, which could lead to:

- payments reaching the wrong businesses at an unnecessary fiscal cost;
- damaging the social capital that is critical for the success of the COVID-19 public health strategy;
- business confusion around the access to the scheme, meaning firms may lose out on support they are entitled to.

The main mitigations we have undertaken include:

- to agree, via Joint Ministers and Cabinet, detailed design rules in order to enable Inland Revenue to build the scheme at pace with as much certainty as possible;
- a series of measures to boost the integrity of the scheme and minimise gaming risks;
- taking a co-ordinated cross-Government approach to communications;
- engaging with external business stakeholders to inform the design of the scheme and promote its availability, ensuring the widest audiences are reached; and
- re-use of components developed for the SBCS as a way to meet challenging system delivery timeframes.

## Section 7: Monitoring, evaluation and review

| **7.1 How will the impact of the new arrangements be monitored?** |
|---|
| • *How will you know whether the impacts anticipated actually materialise?*<br>• *System-level monitoring and evaluation*<br>• *Are there already monitoring and evaluation provisions in place for the system as a whole (ie, the broader legislation within which this arrangement sits)? If so, what are they?*<br>• *Are data on system-level impacts already being collected?*<br>• *Are data on implementation and operational issues, including enforcement already being collected?*<br>• *New data collection?*<br>• *Will you need to collect extra data that is not already being collected? Please specify.* |
| As with the wage subsidies, SBCS, and COVID-19 Income Relief Payment (CIRP), detailed data will be collected by the implementation agency (IR) on the uptake of the scheme. This will capture and allow government to evaluate outputs of the scheme. Information systems at IR are capable of this data collection.<br><br>Evaluation of outcomes will be imperfect, given the radical uncertainty that surrounds any resurgence event and the absence of any suitable counterfactual. In line with the objectives of the scheme and analysis that lead to its inception, we expect to minimise the erosion of firm balance sheets during a resurgence event, and ultimately prevent some insolvencies amongst viable firms that would otherwise take place. While we can assess balance sheet resilience quantitatively, much of this evaluation will be through engagement with business. |

| **7.2 When and how will the new arrangements be reviewed?** |
|---|
| • *How will the arrangements be reviewed? How often will this happen and by whom will it be done? If there are no plans for review, state so and explain why.*<br>• *What sort of results (that may become apparent from the monitoring or feedback) might prompt an earlier review of this legislation?*<br>• *What opportunities will stakeholders have to raise concerns?* |
| A review of the system will depend on whether it is activated. Subject to that, the operation of the scheme will be reviewed regularly based on user feedback and system metrics.<br><br>Monitoring of uptake and engagement will be undertaken in the event that the payment is activated as part of the broader monitoring of the economic situation.<br><br>If required, a review of any policy settings would be co-led by Treasury and Inland Revenue. |

# Cabinet

## Minute of Decision



## Taxation (COVID-19 Resurgence Support Payments and Other Matters) Bill: Approval for Introduction

**Portfolios** **Finance / Revenue**

On 15 February 2021, following reference from the Cabinet Business Committee, Cabinet:

1 **noted** that a category 2 priority on the 2021 Legislation Programme (to be passed in 2021) is being sought for the Taxation (Pandemic Resurgence Support Payments and Other Matters) Bill (the Bill);

2 **noted** that the Bill makes substantive amendments to the:

2.1 Income Tax Act 2007;

2.2 Tax Administration Act 1994;

3 **approved** for introduction the Taxation (COVID-19 Resurgence Support Payments and Other Matters) Bill [IRD 23415/1.12], subject to the final approval of the government caucus and sufficient support in the House of Representatives;

4 **agreed** that the Bill be introduced and passed through all stages under urgency in the week of 15 February 2021;

5 **noted** that on 14 December 2020 Cabinet agreed to the following parameter for the design of the Resurgence Support Payment (RSP);

> "firms will be eligible if they have experienced a revenue decline of at least 30 percent across a 14-day consecutive period at Alert Level 2 or above (including days at Alert Level 1 if there is a national return to Alert Level 1 within 14 days of the initial escalation);" [paragraph 16.3, CAB-20-MIN-0531];

6 **authorised** a group of Ministers comprising the Prime Minister, Minister of Finance, Minister of Revenue and Minister for Economic and Regional Development, to take decisions on whether to amend the 14 day period referred to in the parameter in paragraph 5 above to a 7 day period.

Michael Webster
Secretary of the Cabinet

***Secretary's Note:*** *This minute replaces CBC-21-MIN-0024. Cabinet amended paragraphs 4 and 5 of the CBC minute and added new paragraphs 5 and 6.*

Inland Revenue
Te Tari Taake

## POLICY AND STRATEGY

**Tax policy report:** **Final decisions on the length of the COVID-19 Resurgence Support Payment revenue decline period**

| | | | |
|---|---|---|---|
| **Date:** | 15 February 2021 | **Priority:** | High |
| **Security level:** | In Confidence | **Report number:** | IR2021/067 |

### Action sought

| | Action sought | Deadline |
|---|---|---|
| Prime Minister | **Indicate** a preferred option | 16 February 2021 |
| Minister of Finance | **Indicate** a preferred option | 16 February 2021 |
| Minister of Revenue | **Indicate** a preferred option | 16 February 2021 |
| Minister for Small Business | **Indicate** a preferred option | 16 February 2021 |

### Contact for telephone discussion (if required)

| Name | Position | Telephone |
|---|---|---|
| Kerryn McIntosh-Watt | Policy Director | s 9(2)(a) |
| s 9(2)(a) | Policy Advisor | |

**In Confidence**

15 February 2021

Prime Minister
Minister of Finance
Minister of Revenue
Minister for Small Business

# Final Decisions on the length of the COVID-19 Resurgence Support Payment revenue decline period

## Purpose

1. This report seeks your decision on the length of the COVID-19 Resurgence Support Payment (CRSP) revenue decline period.

2. Inland Revenue recommends, on balance, confirming the Cabinet decision from 14 December 2020 [CAB-20-MIN-0531 refers], which is that the CRSP would be available to firms able to demonstrate a 30% revenue decline over a 14-day consecutive period.

## Background

3. On 14 December 2020 Cabinet agreed to introduce the CRSP, to provide financial support to businesses in the event of an alert level increase [CAB-20-MIN-0531 refers].

4. On 10 February 2021 the Cabinet Business Committee with Power to Act approved the Taxation (COVID-19 Resurgence Support Payments and Other Matters) Bill (the Bill) for introduction as soon as practicable. This Bill contains the amendments necessary to establish the legislative framework under which the CRSP can be implemented. In order for the scheme to be activated, an Order in Council will need to be made.

5. On 14 February New Zealand moved to alert level 2 nationally and alert level 3 in Auckland. As a result of this alert level change and the presence of community COVID-19 cases, Cabinet has decided to progress the Bill under urgency.

6. Cabinet has delegated to joint Ministers the power to make decisions about whether the revenue decline period as part of the CRSP eligibility criteria would be 7-days or remain 14 days.

## Inland Revenue advice

7. Officials have had a short period of time to consider the implications of a 7-day revenue drop period, and so have not had the opportunity to complete full policy analysis.

8. If timely decisions are made (i.e. by the morning of 16 February), Inland Revenue's advice is that it should be possible to make the systems changes necessary to accommodate a 7-day eligibility criteria, in time for the scheme to be active from 23 February 2021. Inland Revenue would also need to update communications, guidance and legal documentation (such as the terms and conditions) that support the CRSP.

9. Inland Revenue also notes that while the scheme could be active from 23 February 2021, due to systems changes as part of the Business Transformation Programme we would be unable to receive applications from 5.30pm on Friday 26 February until the morning of Monday 1 March.

10. While a reduced revenue decline period is technically deliverable and would provide financial support to firms slightly earlier, on balance we consider the current 14-day period to be preferable on policy grounds.

11. We are concerned that a 7-day period would result in inconsistencies between the CRSP policy settings and those for other COVID-19 financial supports (such as the wage subsidy). This inconsistency increases the complexity of the policy environment. This both makes the system more difficult for the public to understand and increases the administrative complexity for agencies.

12. There are also consequential impacts to other CRSP settings (such as the cap for low revenue firms) which officials have not had time to consider in detail. If you decide that the revenue decline test should apply to a 7-day period, this report seeks your agreement to confirm that the default comparator period would be the typical weekly revenue in the six weeks prior and that the CRSP payment cap for low revenue firms should become 4 times the weekly loss they experience in the comparator period.

**Consultation**

13. The Ministry of Business, Innovation and Employment have been informed of this report.

14. The Treasury has been consulted on the preparation of this report. Their comment is included below. Inland Revenue agrees with the policy reasoning expressed.

**Treasury Comment**

*Risks of the 7-day rule change*

15. **Repeat fiscal risk**. Whilst there are significant uncertainties, it is more likely that short AL escalations will occur in future compared to prolonged periods, due to the advancement of the public health response since last year. This means that setting a precedent through a 7-day impact rule over a 14-day impact would more likely multiply the fiscal costs over time.

16. If the AL escalation is limited to around 7 days, **the 7-day rule doesn't allow for any lagged effects to businesses**. This is more unfair on a range of businesses compared to the 14-day test, which captures this lag. (Note this issue diminishes if the AL escalation is longer).

17. For example, an event firm may cancel an event in the future due to uncertainty or if supply chains are disrupted during the AL escalation, and so a revenue reduction not in the week of elevated ALs but in a subsequent week may be recorded. Such a firm is unlikely be able to demonstrate an impact within the required 7-day period, and therefore will not receive support.

*Rationale for 14-day period noted in previous advice*

18. Opening the Wage Subsidy Scheme and RSP for fewer than 7 days was not proposed because Ministers considered it **reasonable for employers to manage the effects of AL escalations that are shorter** than one week without support.

19. It is likely the **support will go to a significantly higher number of firms (see fiscals below)**, as they will not experience a 2nd week during which we would expect revenues to return and the overall reduction would likely be less than 30%.

*Benefits of the 7-day rule change*

20. Government is likely to support a greater number of firms, which may be deemed to be **economically fairer.**

21. Payments would reach firms' accounts a week in advance of the original timeline, which **could more effectively cushion the blow of the AL escalation costs** (however, evidence from our consultation with business suggested 14 days would be manageable and struck a fairer balance with the fiscal costs).

*Minor decisions to flag if a 7-day rule is applied*

22. **The comparator period**: In order to apply, firms need to demonstrate an incurred impact compared to another period. We have assumed we would maintain the 6-week comparator period but continue with the rule agreed in the December Cabinet paper, i.e. it will be the "typical" *weekly* revenue in the six weeks prior. We think this will have a marginal gaming impact.

23. **Impact on low income firms** - so that these firms receive the same support as previously calculated, and to keep it in line with support for most firms (which is unchanged at $1500+(400*FTE)), we think it would be best to set the rule that payments would be the lesser of *four times the weekly revenue drop* rather than *twice the fortnightly* drop, <u>or</u> the $1500+($400*FTE) rate**.**

*Fiscal implications*

| | | **Estimated fiscal cost** ($m) | | **Estimated government coverage of economic costs** | |
|---|---|---|---|---|---|
| | **Economic cost** ($m) | 14-day revenue drop rule *(status quo)* | 7-day revenue drop rule *(proposed change)* | 14-day revenue drop rule *(status quo)* | 7-day revenue drop rule *(proposed change)* |
| **Alert Level 3 in Auckland for one week, AL2 outside of Auckland for one week.** | **490** | **280** | **350** | **60%** | **70%** |
| **Alert Level 3 in Auckland for two weeks, AL2 outside of Auckland for two weeks.** | **980** | **340** | **510** | **35%** | **50%** |
| **Alert Level 3 in Auckland for two weeks, AL2 outside of Auckland for two weeks, followed by a period of nationwide AL2 for at least two weeks** | **1280** | **360** | **550** | **25%** | **35%** |

24. **The proposed change to a 7-day period to demonstrate eligibility results in an increase in costs**, as it softens the application of the revenue drop test. The marginal firms captured would be those that experience an acute impact in one week, and a rebound in activity in subsequent weeks. This change opens the scheme to capture firms whose average revenue drop over an impacted fortnight is only 15%, rather than the 30% required under current settings.

25. **Most of the difference in fiscal cost occurs over the first weeks** of the period of elevated Alert Levels – as the resurgence event continues, the number of eligible

firms taking up the scheme attains a saturation point. As such, costs are not as sensitive to the duration of the Alert Level escalation, as they are to the severity – a more prolonged period at elevated Alert Levels does not continue to result in increased costs beyond the first few weeks.

26. **These figures were produced at pace, with limited information.** They may be revised if more time or information becomes available. The table only differs from the costings provided earlier today by the addition of the third row, to demonstrate that costs do not continue to increase at the same rate as the duration of the elevated AL period increases.

27. **Note that the cost borne by the Government in the table above does not include any costs associated with the wage subsidy scheme** or any other COVID-19 supports, should these be reactivated.

## Next steps

28. The Taxation (COVID-19 Resurgence Support Payments and Other Matters) Bill is intended to be introduced and passed under urgency tomorrow (16 February 2021). Cabinet is required to authorise the activation of the RSP. In order for the scheme to be activated, an Order in Council must be made. This Order in Council cannot be drafted until the eligibility settings are determined (including the length of the revenue decline period).

## Recommended action

We recommend that you:

1. **note** that a decision on the length of the CRSP revenue decline period is urgently needed in order for the legislation enabling the CRSP to be introduced;

2. **note** that if a decision is not made by the morning of 16 February it is unlikely that the CRSP will be able to be delivered within the required timeframes;

3. **EITHER**

3.1 **agree** to confirm the 14-day revenue decline period as previously agreed by Cabinet [CAB-20-MIN-0531 refers] (Inland Revenue preferred);

| | | | |
|---|---|---|---|
| Agreed/Not agreed | Agreed/Not agreed | Agreed/Not agreed | Agreed/Not agreed |
| **Rt Hon Jacinda Ardern** | **Hon Grant Robertson** | **Hon David Parker** | **Hon Stuart Nash** |

**OR**

3.2 **agree** that the CRSP revenue decline period should be 7 days;

| | | | |
|---|---|---|---|
| Agreed/Not agreed | Agreed/Not agreed | Agreed/Not agreed | Agreed/Not agreed |
| **Rt Hon Jacinda Ardern** | **Hon Grant Robertson** | **Hon David Parker** | **Hon Stuart Nash** |

**If recommendation 3.2 is agreed**

4. **agree** that the default comparator period for the revenue decline period should be the typical weekly revenue in the six weeks prior;

| | | | |
|---|---|---|---|
| Agreed/Not agreed | Agreed/Not agreed | Agreed/Not agreed | Agreed/Not agreed |
| **Rt Hon Jacinda Ardern** | **Hon Grant Robertson** | **Hon David Parker** | **Hon Stuart Nash** |

**If recommendation 3.2 is agreed**

5. **agree** that where previously a payment rule was to pay double the fortnightly drop in earnings, this would become 4 times the weekly loss.

| | | | |
|---|---|---|---|
| Agreed/Not agreed | Agreed/Not agreed | Agreed/Not agreed | Agreed/Not agreed |
| **Rt Hon Jacinda Ardern** | **Hon Grant Robertson** | **Hon David Parker** | **Hon Stuart Nash** |

s 9(2)(a)

**Kerryn McIntosh-Watt**
Policy Director
Policy and Strategy

| | | | |
|---|---|---|---|
| **Rt Hon Jacinda Ardern** | **Hon Grant Robertson** | **Hon David Parker** | **Hon Stuart Nash** |
| Prime Minster | Minister of Finance | Minister of Revenue | Minister for Small Business |
| / /2021 | / /2021 | / /2021 | / /2021 |