

# Inland Revenue

## Information Release

### Small Business Cashflow (Loan) Scheme – 2020 Cabinet papers

March 2022

#### Description

This information release includes Cabinet papers and policy reports about the Small Business Cashflow (Loan) Scheme from April to July 2020. These were published on the Government's COVID-19 website<sup>1</sup> between June and October 2020.

#### Availability

This information release is available on Inland Revenue's tax policy website at <https://taxpolicy.ird.govt.nz/publications/2022/2022-ir-cab-2020-sbcs>

Individual documents are available on the Government's COVID-19 website at <https://covid19.govt.nz/about-our-covid-19-response/proactive-releases/supporting-the-economy/>

#### Documents in this information release

#	Reference	Type	Title	Date
<b>DEV-20-SUB-0059: Small Business Cashflow Scheme (Loan) (29 April 2020)</b>				
This Cabinet paper precedes the policy decisions taken in CAB-20-SUB-0196 and CAB-20-MIN-0196.				
1	T2020/1240	Policy report	Covering report on the Small Business Cashflow Scheme (Loan) and current parameters	28 April 2020
2	DEV-20-SUB-0059	Cabinet paper	Introducing a Small Business Cashflow (Loan) Scheme	29 April 2020
3	DEV-20-MIN-0059	Minute	Small Business Cashflow Scheme (Loan)	29 April 2020
<b>CAB-20-SUB-0196: Introducing a Small Business Cashflow (Loan) Scheme (30 April 2020)</b>				
4	CAB-20-SUB-0196	Cabinet paper	Introducing a Small Business Cashflow (Loan) Scheme	30 April 2020
5	CAB-20-MIN-0196	Minute	Introducing a Small Business Cashflow (Loan) Scheme	30 April 2020
<b>CAB-20-SUB-0217: Small Business Cashflow (Loan) Scheme: Further legislation and design update (11 May 2020)</b>				
6	IR2020/237 T2020/1347	Policy report	Small Business Loan Scheme – Further decisions	5 May 2020

<sup>1</sup> <https://covid19.govt.nz/about-our-covid-19-response/proactive-releases/supporting-the-economy/>

#	Reference	Type	Title	Date
7	IR2020/243 T2020/1402	Policy report	– Policy report: Small Business Cashflow (Loan) Scheme – Further legislation and other decisions	7 May 2020
8	T2020/1362 IR2020/245	Policy report	Small Business Loan Scheme – Detailed design decisions	7 May 2020
9	CAB-20-SUB-0217	Cabinet paper	Small Business Cashflow (Loan) Scheme: Further legislation and design update	11 May 2020
10	CAB-20-MIN-0217	Minute	Small Business Cashflow (Loan) Scheme: Further legislation and other decisions	11 May 2020
<b>DEV-20-SUB-0131: Extension of the Small Business Cashflow (Loan) Scheme after 24 July 2020 (1 July 2020)</b>				
11	T2020/1621 IR2020/280	Policy report	Extension of the Small Business Cashflow Loan Scheme	27 May 2020
12	CAB-20-MIN-0256	Minute	Additional item: Extension of the Small Business Cashflow (Loan) Scheme	2 June 2020
13	DEV-20-SUB-0131	Cabinet paper	Extension of the Small Business Cashflow (Loan) Scheme after 24 July 2020	1 July 2020
14	DEV-20-MIN-0131	Minute	Extension of the Small Business Cashflow (Loan) Scheme after 24 July 2020	1 July 2020

### Information withheld

Sections of the Official Information Act 1982 under which information was withheld:

- 9(2)(a) to protect the privacy of natural persons, including deceased people
- 9(2)(f)(iv) to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials
- 9(2)(g)(i) to maintain the effective conduct of public affairs through the free and frank expression of opinions
- 9(2)(h) to maintain legal professional privilege
- 9(2)(k) to prevent the disclosure of official information for improper gain or improper advantage

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# The Treasury

## COVID-19 Information Release

### June 2020

This document has been prepared for release by the Treasury:

<https://uniteforrecovery.govt.nz/updates-and-resources/legislation-and-key-documents/proactive-release/>

#### Context

This is the covering Treasury Report for DEV-20-SUB-0059.

#### 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:

- [23] 9(2)(a) - to protect the privacy of natural persons, including deceased people
- [33] 9(2)(f)(iv) - to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials
- [34] 9(2)(g)(i) - to maintain the effective conduct of public affairs through the free and frank expression of opinions
- [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 [23] appearing where information has been withheld in a release document refers to section 9(2)(a).

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## Treasury Report: Covering Report on the Small Business Cashflow Scheme (Loan) and Current Parameters

Date:	28 April 2020	Report No:	T2020/1240
		File Number:	CO-6-2-5

### Action sought

	Action sought	Deadline
Hon Grant Robertson <b>Minister of Finance</b>	<p><b>Note</b> the overlap between the Business Finance Guarantee Scheme and the proposed Small Business Cashflow Scheme (loan).</p> <p><b>Note</b> the risks of the proposed Small Business Cashflow Scheme (loan) due to this overlap.</p> <p>If you wish to <u>proceed with the current policy parameters</u> in the Cabinet paper, <b>direct</b> Treasury to lodge the current paper.</p> <p>If you <u>wish to minimise the overlap</u> between the BFG and the Small Business Cashflow Scheme (loan), <b>direct</b> the Treasury to provide further advice on how the new scheme might be designed to reduce overlap with the BFG and best target assistance to smaller business.</p>	28 April 2020

### Contact for telephone discussion (if required)

Name	Position	Telephone	1st Contact
Ruohan Zhao	Analyst, Transitions, Regions, and Economic Development	[39]	[23] ✓
Jean Le Roux	Manager, Transitions, Regions, and Economic Development	[39]	[23]

### Minister's Office actions (if required)

**Return** the signed report to Treasury.

Note any feedback on the quality of the report

**Enclosure:** No

## Treasury Report: Covering Report on the Small Business Cashflow Scheme (Loan) and Current Parameters

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### Executive Summary

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There is overlap between the proposed Small Business Cashflow Scheme (Loan) (SBCS) and the Business Finance Guarantee (BFG).

We recommend designing the direct loan scheme to minimise crossover between the two schemes and clearly explain to businesses how they should think about accessing finance. It will also be important from a communications perspective to clearly distinguish the direct Crown lending scheme versus the BFG's target and intent.

We think that banks are likely to take into account lending under the direct Crown lending scheme when assessing serviceability for any future lending, including under the BFG. Banks will also have questions around how their debt ranks in insolvency compared to this direct lending scheme.

The proposed direct Crown lending scheme also provides a more concessionary product to borrowers. Therefore, there is likely to be a reduction in the demand, as well as uptake, for the BFG at the lower bound where there is eligibility crossover.

**If you wish to proceed** with the current parameters as drafted in the Cabinet paper, we will lodge the Cabinet paper for DEV on 29 April 2020. We note that there are a number of risks arising from the overlap in policy design, which will require clear mitigations and communications to the public and the banking sector.

**If you wish to further target the current scope of the SBCS Loan**, we recommend you direct us to provide further advice on how the new scheme might be designed to reduce overlap with the BFG and best target assistance to smaller business (for example, reducing the FTE cap and with a higher loan amount per business). We will also amend the accompanying Cabinet paper if you wish to make changes to the policy parameters for you to take to DEV on 29 April 2020.

### Recommended Actions

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We recommend that you:

- a. **Note** that while the Business Finance Guarantee (BFG) and the Small Business Cashflow Scheme (loan) (SBCS) are somewhat different in nature and purpose, there is a degree of overlap for firms that have over \$250,000 in annual turnover and less than 50 FTEs;
- b. **Note** that the SBCS loan will likely incentivise businesses who would have otherwise taken up a BFG loan to take up the direct Crown lending product instead (or in addition to, but not until SBCS funds are drawn);
- c. **Note** that if a firm takes out loans under the SBCS, then there is a risk that banks will be less likely to approve a BFG loan as the business would have reduced credit capacity (although if the SBCS is the lowest ranking debt that risk will be reduced);

- d. **Note** that the parameters of the loan scheme have been converted from the previously proposed grant scheme;
- e. **Note** that if Ministers do wish to provide a loan scheme rather than a grant, one way to reduce the overlap would be to focus the assistance on smaller firms by reducing the size of eligible firms and increasing the amount available to each firm;
- f. **Direct** Treasury to either:
  - i. Lodge the current version of the Cabinet paper
  - OR
  - ii. Develop options to target the SBCS and reduce overlap (for example, by lowering the eligibility cap and increasing the loan amount per business), and table an amended Cabinet paper at DEV on 29 April
- g. **Refer** the paper to the Minister of Revenue.

*Referred/Not Referred.*

[39]

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

Hon Grant Robertson  
**Minister of Finance**

## Treasury Report: Covering Report on the Small Business Cashflow Scheme (Loan) and Current Parameters

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### Purpose of Report

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1. You have asked the Treasury to draft a Cabinet paper on a proposed loan scheme for small to medium businesses. This report provides you information on the interaction of this proposed Small Business Cashflow Scheme (Loan) (SBCS) with the Business Finance Guarantee Scheme (BFG).
2. In the time available, we have concentrated on ensuring that implementation of a loan scheme is feasible. We have not yet provided advice on how such a scheme could be best targeted, or on the interaction with the BFG. This report does that and also suggests that you ask us to provide further advice on how the new scheme might be designed to reduce overlap with the BFG and best target assistance to smaller businesses.

### Comparison of BFG Parameters and the Proposed Small Business Cashflow Scheme Loan

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3. There is no universal definition of a small-to-medium sized business (SME), however they are often defined as businesses with annual revenue less than \$50 million, or up to 50 employees. Small SMEs are often defined as businesses with annual revenue less than \$20 million, or up to 20 employees.
4. The BFG is a loan guarantee scheme for businesses with annual revenue between \$250,000 and \$80 million – so it covers the majority of SMEs as well as some larger businesses. The maximum loan amount is \$500,000 and the loan is over three years. It is delivered by banks and the risk share is 80/20 – interest rates are determined by banks under their normal lending criteria.
5. The proposed direct Crown loan scheme is for businesses with up to 50 FTEs – so it likely covers all SMEs. We understand that Ministers wish to increase coverage of any Crown support to include medium-sized enterprises.
6. The proposed direct Crown loan is calculated on at \$2,000 per employee (with a minimum base payment for all businesses of \$3,000). The maximum loan amount will be \$100,000. As it will be direct Crown lending, the Crown will bear 100% of the risk. The intended repayment term and interest rate (post the interest-free period) has not yet been set.
7. Therefore, the key differences between BFG and the direct Crown lending scheme will be that:
  - The BFG will be delivered by banks, while the direct Crown lending scheme will be delivered by the Crown through the Inland Revenue Department (IRD);
  - Banks will be analysing the viability of each individual business using standard lending practices, but the SBCS will not assess a business' viability. Therefore, banks will only provide BFG loans to businesses that they are willing to lend to

and it is possible that not all viable business will receive loans under the BFG. The direct Crown lending scheme will be less stringent than for the bank loan;

- The BFG interest rate is set by banks, albeit is very competitive due to the associated RBNZ Term Lending Facility and reflection of the risk the Crown is taking, whilst the Crown lending scheme will likely be more concessionary;
  - Eligible businesses will have 25% of their loan forgiven if they pay within 2 years. As the SBCS is more concessional and has a grant-like component, it supports firms' solvency as well as liquidity;
  - The repayment period for the direct Crown lending product will likely be delayed until 6 months after the initial cash outlay (depending on IRD systems); and
  - The maximum amount of the Crown lending scheme will be lower at \$100,000.
8. Nonetheless, under both schemes, businesses will still need to make the decision to take on more debt, which may be problematic for businesses that are struggling due to COVID. This is particularly hard decision for small businesses of a relatively lower credit quality, so the SBCS would be more effective for these smaller businesses as banks do not typically service them. These firms will particularly benefit from the Crown loan scheme, where there are no credit assessment criteria to enter. Therefore, there is a real gap which the SBCS would address. For example, the SBCS will be made available to 190,000 businesses which are not eligible for the BFG.<sup>1</sup> The 25% grant component will be concessionary and assist firms to limit the amount of debt that they take on.
9. However, if the firm is big enough to get bank funding, another policy lever, such as making changes to the BFG may be a more preferable option than widening the scope of the SBCS that there is a substantial overlap with the BFG.

## Overlap Between the BFG and the SBCS

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10. Although further decisions are required on the key loan terms of the SBCS loans, there will be a crossover where businesses are eligible for both schemes. There needs to be a clear narrative to explain the different policy targets and objectives to help businesses navigate this landscape, especially where the crossover between schemes is large.
11. It is difficult to ascertain the exact group of businesses which may be eligible for both the BFG and proposed loan scheme, as the eligibility caps for both schemes are based on different firm characteristics, i.e. firm turnover vs. FTE numbers. Broadly speaking, firms with annual revenue above \$250,000 and up to 50 FTEs will be eligible for both schemes.
12. Direct comparisons between turnover and employment are limited as there is significant heterogeneity in firm structures, but \$250,000 in turnover relates to very small firms (perhaps 0-3 FTE), while a 50 FTE business is likely to have turnover of \$10m-\$20m. A business at the larger end of this scheme is more likely to have in-house finance professionals and more sophisticated banking relationships. Therefore, as currently designed there is significant overlap between the SBCS and BFG, and the SBCS would include a number of firms which should be seeking support through the BFG in the first instance.

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<sup>1</sup> Using the ANZSIC division and sales band data from 2018, there were around 190,000 firms with <\$100,000 turnover - the likely amount of firms to be eligible for this (and not eligible for the BFG's \$250,000 turnover threshold) would be more than this.



## Targeting the Scheme

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13. Previously, Treasury noted that targeting the grant at smaller SMEs (i.e. up to 20 employees) would have more of a direct impact for addressing their liquidity issues, due to their more limited headroom to take on increased debt. Larger firms are more resilient and should be able to access other lines of credit. Fixed costs for smaller firms are relatively higher. It may be more effective for the policy to target support for smaller firms in a more generous way.
14. On the basis of the original grant scheme proposal's payment schedule, the smallest firms would be eligible for a \$5,000 loan of which \$1,250 would become a grant on timely repayment; this is unlikely to provide significant enough support to the small business community in the face of the unprecedented liquidity and solvency challenges which come with a period of zero revenues.
15. If you wish, you can direct Treasury to provide options for more narrowly defining the boundary of the SCBS scheme to improve targeting in relation to existing support available under the BFG.

## Impact on Banks and Demand for a BFG

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16. Banks are likely to take into account lending under the direct Crown lending scheme when assessing serviceability for any future lending, including under the BFGS.
17. Banks may also have concerns around their customers taking on more debt where they have no visibility, and their scaled security values. In particular, banks will immediately have questions around how their debt ranks in insolvency.
18. Some customers may need the consent of their bank to access a direct Crown loan, where they have existing bank borrowing and negative pledge arrangements. Whilst the Crown could potentially legislate around that, banks may have strong objections.
19. Therefore, there is likely to be a reduction in the demand, as well as uptake, for the BFG at the lower bound where there is crossover, as Crown direct lending is likely to be preferable to private bank lending as:
  - a. Interest rates for the direct Crown lending product are concessionary, so customers that require financing below \$100,000 would opt for the Crown loan scheme;
  - b. Banks will not be incentivised to provide loans to businesses that are eligible for Crown lending, so the demand for the Crown product could increase; and
  - c. The grant component of the scheme will incentivise businesses to take on the loan, even if they do not otherwise require financing.
20. The Crown has worked to encourage banks to provide access to the BFG, including by providing the Term Lending Facility through the RBNZ and necessary changes to capital modelling to support lower capital adequacy on these loans. <sup>[34]</sup>

## Potential Option for Targeting

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21. To minimise the risk of crossover and target smaller firms, Ministers could reduce the eligibility to firms with less than, for example, 20 FTEs.
22. Restricting the eligibility to a lower amount of FTEs will reduce overlap, and gives you the option of expanding the scale of support available for these firms (i.e. lending more per firm to fewer firms). We can provide more advice on options if you wish.
23. There is also uncertainty around what Alert Levels will be over the coming months, and what levels of economic activity may be expected. To manage this uncertainty, it may be preferable for the Crown to preserve optionality to scale up, instead of setting parameters which makes it harder to scale down in the long-term (particularly once contracts are negotiated).
24. You could include a self-certification that customers cannot access funding from banks before applying for the SBCS if you were concerned about substitution away from the private sector. However, we understand from IRD that it is administratively difficult to implement this criteria, as it is likely to create a large volume of inquiries for both IRD and banks.

## Fiscal Risk to the Crown

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25. The Crown's fiscal and implementation risks are minimised through the delivery of the BFG by banks, whereas the Crown will be fully exposed under the proposed direct Crown lending scheme. Because there is no credit assessment undertaken, the Crown is likely to be supporting many businesses that are ultimately not viable.

## Implementation

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26. IRD has limited administrative capacity as it is already administering a number of COVID-19 related measures (e.g. tax loss carry back, use of money interest remission etc), supporting MSD with the wage subsidy and ongoing increased demand for support from both business and social sector customers. IRD has just completed Release 4 of Business Transformation, is coming up to its peak season for customer contacts (the annual year-end tax square up referred to auto-calc) and is also facing up to 25% reduction in capacity due to the impacts of COVID-19 on the organisation.
27. IRD has indicated that it can administer the new loan scheme, but this will put more pressure on customer services and will lead to further delays in responding to their customers.
28. Another trade-off to consider is that it may limit Ministers' choices around the timing of using Inland Revenue to implement additional COVID-19 related measures, [33]
29. While early indications are that IRD may have capacity to implement additional measures after peak season (beginning in around August), there are uncertainties and risks around this.

## Next Steps

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30. If you are comfortable with the current Cabinet paper and its parameters, and noting the risks, we will lodge the paper for you to take to DEV on Wednesday 29 April 2020.
31. If you would like to target the SBCS loan at smaller firms, we recommend you direct us to provide further advice on how the new scheme might be designed to reduce overlap with the BFG and best target assistance to smaller business (for example, reducing the FTE cap and with a higher loan amount per business). We will also amend the accompanying Cabinet paper if you wish to make changes to the policy parameters for you to take to DEV on 29 April 2020.



# The Treasury

## Small Business Cashflow scheme (loan) Information Release

June 2020

This document has been prepared by the Treasury:

<https://uniteforrecovery.govt.nz/updates-and-resources/legislation-and-key-documents/proactive-release/>

### Explanatory Note

This Cabinet paper precedes the policy decisions taken in CAB-20-SUB-0196 and CAB-20-MIN-0196.

### Cabinet Document Details

Title: **DEV-20-SUB-0059: Small Business Cashflow scheme (loan)**

Date: **1 May 2020**

Creator: Office of the Minister of Finance

### No information has been withheld

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Office of the Minister of Finance  
Office of the Minister of Small Business  
Office of the Minister of Revenue  
Chair, Cabinet Economic Development Committee

## **Introducing a Small Business Cashflow (Loan) Scheme**

### **Proposal**

1. This paper seeks agreement to introduce a loan scheme to assist small-to-medium businesses impacted by COVID-19.

### **Background**

2. COVID-19 has had an unprecedented impact on New Zealand businesses. The Government has already introduced a number of policies to support small-to-medium businesses, such as the wage subsidy scheme and the Business Finance Guarantee.
3. However, under the conditions of Level 4 and Level 3 of our alert framework, some businesses will not be able to generate any revenue for at least seven weeks. Others have minimal revenue not sufficient to meet a range of non-wage fixed costs including rent, utilities and insurance.
4. Therefore, consistent with the Government's first wave economic response of "cushioning the blow", we propose introducing a Small Business Cashflow Scheme (SBCS) to help impacted businesses with immediate cash flow support.
5. If agreed, the SBCS will be delivered by the Inland Revenue Department (IRD) under a new legislative authority.

### **Executive Summary**

6. The impact of COVID-19 is felt strongly by smaller firms, many of whom have limited access to credit lines either because of their size or because banks may not assess them to be viable. Supporting these businesses is important to ensure we are well placed for an economic recovery under waves 2 and 3.
7. The scheme would provide a loan based on an approximation of firm size.
8. Firms with up to an equivalent of 50 full time employees (defined by the wage subsidy as working 20 hours or more per week) will be eligible. Commonly owned group of companies will be treated as a single firm when applying this 50 employee cap.
9. Firms that have already received the wage subsidy, will simply have to confirm that they remain impacted by COVID-19.

10. Firms that have not applied for the wage subsidy will also will be eligible to apply for the loan subject to declaring they have been impacted by COVID-19 and providing their full time equivalent employee numbers (using the wage subsidy definition of full time).
11. This 50 full time employee equivalent measure would allow for a mix of part time and full time employees.
12. The loan amount will be \$3,000, plus a further \$2000 per equivalent full time employee (based on wage subsidy data). Eligible businesses will be able to receive up to a maximum of \$100,000. While forecasting the cost of such a scheme is inherently uncertain, officials' best estimate is that it will cost around \$2 billion.
13. The loan will be interest free for two years up until 31 July 2022 (that is, for approximately two years) and if repaid before the end of the two year period, 25 percent of the loan will be written off (converted to a grant). After 31 July 2022, unpaid lending will be charged interest at the tax underpayment use of money interest rate.
14. The SBCS will be implemented by the Inland Revenue Department at pace, using a high trust model (however, using the wage subsidy data provides some level of verification), pursuant to a new legislative authority to grant and administer the loans. Businesses who declare financial hardship from COVID-19 will be eligible to receive the loan. The SBCS will be available for applications from 12 May 2020, until 12 June 2020 – with Cabinet reviewing whether to extend the end date a week beforehand.

### **Design of the scheme**

15. We have considered a range of design parameters for the SBCS. In proposing the features of the SBCS below, we have considered the speed at which the scheme could be implemented by IRD. In order for this scheme to provide timely assistance to small and medium enterprises who have faced no or very little revenue as a result of Level 4 and Level 3 restrictions it is necessary for there to be approval of the design of the scheme this week. If approval is granted this would enable IRD to take applications for the scheme from the 12th of May.
16. We also considered a grant scheme. In our view a loan scheme is a more targeted means of assisting those businesses in need.

### *Eligibility Criteria*

17. This scheme is designed to provide immediate support for businesses struggling because of loss of revenue. A core principle is to make eligibility as simple as possible to enable money to be rapidly available while balancing against this the need to be assured the money is going to businesses with genuine need.
18. We propose that the scheme will be available to businesses who are eligible for the wage subsidy scheme and have fewer than 50 full time employees<sup>1</sup> (defined by the wage subsidy as working 20 hours or more per week) as reflected in their application

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<sup>1</sup> All references to full time employees and FTE are based on the wage subsidy definition of working 20 or more hours per week.

for the wage subsidy. Firms that have not applied for the wage subsidy will have their eligibility assessed in the same way.

19. We considered other ways of capping eligibility, including by firm turnover or by operating costs. These options were not pursued as IR does not hold information on a firm's turnover or operating costs, and this information would be more onerous to verify and could delay implementation.
20. The decision to base the size of the firm on FTE rather than employee headcount ensures that firms with large proportions of part-time employees are also able to benefit fully from this scheme.
21. We also recommend that the eligibility of state sector organisations and of different organisational types (such as charities, and not-for-profit entities) to apply for this cash payment be aligned with the settings of the wage subsidy scheme.

*Amount of the loan*

22. In setting the amount to be paid we considered the overall size of the fiscal response, and the average size of non-wage costs faced by small firms. As such we arrived at a payment that is graduated for firms, based on their size, with a maximum loan of \$100,000.
23. We also considered the need to share the burden of managing the impacts from COVID-19 between business and the government. We have done this by ensuring the loan is large enough to cover some but not all the businesses fixed costs.
24. We also considered the need to provide increased levels of support for very small businesses (e.g. sole traders). These businesses tend to have a higher proportion of non-wage costs, meaning a flat per-employee loan will provide proportionally less support. They are also less able to access other lending solutions to meet costs. For medium-sized businesses (i.e. nearer to the 50 FTE cap), we expect that they should be able to access the other forms of support that have been developed, such as the Business Finance Guarantee.
25. We therefore propose a loan amount businesses of \$2,000 per employee based on the business' full-time-equivalent numbers. In addition to this payment per FTE, businesses will also be eligible for a base rate of \$3,000 per firm. This will provide proportionally more lending support to very small firms (i.e. sole traders and 1 – 2 employee businesses).
26. For example:

Firm size	Base loan	Per FTE amount	Total loan
Sole trader	\$3000	\$2000	\$5000
3 FTE	\$3000	\$6000	\$9000
49 FTE	\$3000	\$98,000	\$101,000, but reduced to the cap of \$100,000



## How Businesses Can Apply for the SBCS

27. Businesses will apply for the loan payment through their authenticated myIR account. In their application, we propose that they will need to declare:
  - 27.1 Their New Zealand Business Number;
  - 27.2 That they are facing a 30% downturn in revenue as a result of the COVID19 restrictions (as required by the wage subsidy);
  - 27.3 That they were a business in existence prior to 1 April 2020;
  - 27.4 That they are still in business and acknowledge that the purpose of the lending is to provide working capital to support the business as a going concern
  - 27.5 The number of employees that they applied for through the wage subsidy
28. Like the wage subsidy, this declaration will be based on a high-trust model, and subject to ex-post audit, much like income tax liabilities. Officials will further develop verification processes and work through whether any legislative change is required to allow such audits, and whether the name of loan recipients (trading or business name) should be published subject to consultation with the Office of the Privacy Commissioner.
29. Using the wage subsidy data as the basis for most applications means that the recipients will have already been vetted by MSD and IRD to some extent, thus reducing integrity concerns that would exist with requesting an entirely new data set.
30. Once approved, the loan will be paid in full to the applicant. There will not be any adjustment for any tax debt owed by the applicant.
31. While the application and payment under the SBCS will be highly automated, IR will provide a bespoke application process to assist businesses that did not apply for the wage subsidy but would like to apply for the SBCS.

## Other options considered

32. In developing this scheme, we considered the following key criteria:
  - 32.1 Timeliness – the speed at which funds can be provided to firms
  - 32.2 Targeted – the need to focus support on firms who genuinely need it, and
  - 32.3 Fiscal sustainability – the fiscal cost of providing additional support.
33. Alongside the proposed loan scheme, we considered alternative small business support measures, as set out below.
34. *Providing a grant.* This would approximately double the fiscal cost of the scheme and we consider that this would mean that government support is less targeted because the fact that it is a loan which is repayable, will mean that firms will think carefully about whether they need to take the funds.

35. *Lending a flat amount to all eligible firms.* This would provide the most support for the smallest firms and put less strain on Inland Revenue resources. However, the support would be poorly targeted across the different sizes of SMEs. Larger SMEs with higher costs would receive the same amount as smaller SMEs with lower costs. A graduated rate provides more proportional support across the spectrum of firm sizes.
36. *Excluding zero employee firms (sole traders).* This would reduce the fiscal cost of the scheme substantially. However, excluding these firms would push more people into the welfare system, and particularly into the Temporary Income Support Relief that is currently being considered.
37. We also considered whether to include large firms (those employing 50 or more full-time employees) in the scheme but capping the amount they can receive at \$100,000. There are proportionally very few large firms, so including them in this way would not significantly add to the fiscal cost. However, larger firms are more able to access other forms of support, including the Business Finance Guarantee. Instead, the scheme is aimed at smaller firms that cannot easily access alternative sources of finance, and that are facing closure decisions now.
38. Several features of the scheme design will help alleviate the issue of providing support to firms that do not need it, including:
  - 38.1 Requiring business owners to declare that their business has been negatively impacted by COVID-19, and that they need further support beyond that already provided by the wage subsidy;
  - 38.2 A cap on the total amount that can be lent to each firm; and
  - 38.3 A cap on the size of firms able to receive the payment.
  - 38.4 The loan forgiveness (refund) will not apply until 31 July 2022. Firms that make early repayment will not be eligible for the loan forgiveness until 31 July 2022.
  - 38.5 Firms that cease to operate before 31 July 2022 will not be eligible for the loan forgiveness.
  - 38.6 Officials will develop design features to facilitate audit and reduce the risk of fraud.

## **Tax Implications**

39. As a loan, businesses would not be subject to income tax on the amount they receive and would be able to claim deductions for expenditure funded by the scheme.
40. Similarly, GST registered businesses would not have to pay GST on the loan, with those businesses being able to claim input tax deductions for the relevant expenditure funded by the loan.
- 41.
42. Officials are working through the income tax and GST consequences, if any, of the concessional portion of the loan.

## Technical details

43. There are number of technical details that will be needed to be designed before the scheme can be operational. These include establishing the standard legal terms of the loan and deciding how the loan will rank vis-à-vis other debt of businesses, the definition of separate businesses, and how to apply the FTE count cap. We propose that we are delegated to make these decisions over the course of the coming week.

## Financial Implications

44. The Treasury advises that the indicative costs of the \$4 billion in lending to be made available through the SBCS, are approximately \$2 billion (pending confirmation of the estimated costs of any fair value write down). The costings are based on an assumption of 100 percent take up of the loan amount equal to \$3,000 for each firm plus \$2,000 for each FTE that the firm has applied for the wage subsidy on behalf of, up to a cap of \$100,000 which will be available to businesses with less than 50 FTE.
45. A loan scheme is likely to cost the Crown somewhat less than an equivalently calibrated grant scheme, though by how much is uncertain. With conservative estimates regarding non-payment/default, and factoring in the convertible grant component of the loan scheme, the fiscal costs are likely to run to at least 50% of an equivalent grant scheme (Indeed, given the current uncertainty, there is a wide confidence band and costs could even run to 60 or 70%.) Additionally, a loan scheme comes with enduring administrative costs and future policy choices which a grant scheme does not.
46. The estimated costs for the SBCS are highly uncertain. We have limited knowledge of the extent to which businesses will be willing to take on additional debt, but the potential 25 percent grant component is likely to increase the attractiveness of the scheme.
47. Nearly all businesses we expect to be eligible for this scheme have sought the wage subsidy payment. It is not known how many of the wage subsidy scheme population will not apply for this additional support, or how many might no longer meet the revenue loss test and are now ineligible for support.
48. Further uncertainty arises from the fact that we do not know the precise distribution of firms that will be eligible for the scheme. Instead, we only have the numbers of firms within brackets (0 employees, 1-3 employees, etc). This is an important variable as, by design, the scheme pays out in increasing amounts for larger firms. In estimating the costs, we assume that within brackets, firms are skewed towards the smaller end of the distribution. To the extent that the assumed skew is overly weighted towards the smaller end, we will have underestimated the cost, and vice versa.
49. To manage any unforeseen increases to the SBSC and to ensure that eligible businesses receive the loan, we propose Cabinet delegate to the Minister of Finance and the Minister of Revenue the authority to adjust the appropriation upwards. This is consistent with the approach that has been implemented for the wage subsidy scheme. This can only be done consistent with the design of the scheme as agreed by Cabinet.

### *Administrative costs*

50. IR have estimated that it will cost approximately \$0.250 million to build the system to deliver the SBCS payments (which can be absorbed within baselines), and up to \$9.940 million to develop a system for repayments and debt collection/management. This \$9.940 million will be held in a tagged contingency, to be drawn down should Inland Revenue be unable to meet the second round of build costs from their baselines.
51. IR have estimated that it will cost approximately \$26.500 million to administer the SBCS.

### *Impact on the COVID-19 Recovery and Response Fund*

52. The SBCS will be charged against the COVID-19 Recovery and Response Fund.
53. The value of the loans must be impaired immediately when they are made, in the same manner that occurs currently for student loans. The impairment will need to take into account the probability of the 25% non-recovery, the concessional interest rate, and an allowance for uncertainty. It would usually be calculated by estimating the expected cash flows from recoveries, applying a discount rate that reflects the risk, and comparing that to the amount lent. The initial impairment will impact the operating balance before gains and losses (OBEGAL). Adjustments are likely to be required over the life of the loans as the loan assets must not be reported at an amount greater than the amount that can be recovered.
54. To put the scheme into effect, three appropriations are required:
  - 54.1 A non-departmental capital expenditure appropriation for the amount being lent. (refer to amount from p 37)
  - 54.2 A non-departmental other expenses appropriation for the initial impairment being recognised on the loan
  - 54.3 A departmental output expense appropriation for the administration of the scheme.
55. To avoid double counting the net impact on net core Crown debt over the forecast period (2019/20 to 2023/24) will be counted against the CRRF.
56. At the stage, the fiscal implications to the Crown from the scheme are yet to be fully costed, therefore the impact on the operating balance and net core Crown debt is unclear.

### **Legislative Implications**

57. In accordance with section 65K of the Public Finance Act 1989, which prohibits the making of loans by the Crown except as expressly authorised by statute, new legislative authority will be required to allow Inland Revenue to make loans under the scheme.

58. We recommend that this committee delegate authority to the Minister of Finance and the Minister of Revenue to make decisions on the detailed design of the proposal recommended in this paper, and for the Minister of Revenue to include to the extent feasible in the timeframe any required amendments in the COVID-19 Response (Taxation and Other Regulatory Urgent Measures) Bill to be introduced in the week beginning 27 April and authority to the Minister of Finance and Minister of Revenue to introduce a Supplementary Order Paper containing any further necessary legislative changes in the at the committee of the whole House stage of the COVID-19 Response (Further Management Measures) Bill currently scheduled for introduction in the week beginning 4 May.

### **Regulatory Impact Statement**

59. The Treasury has determined that this proposal is a direct Covid-19 response and has suspended the RIA requirements in accordance with Cabinet decision (CAB-20-MIN-0138).

### **Consultation**

60. The Treasury has consulted with Inland Revenue Department. The Ministry of Business, Innovation and Employment, Ministry of Social Development, and the Department of Prime Minister and Cabinet have been informed.

### **Communications**

61. The establishment of the scheme is expected to be communicated by the Minister of Finance shortly after these decisions.
62. Officials have prepared a communications pack to support the announcement.

### **Proactive Release**

63. We intend to proactively release this paper.

### **Recommendations**

The Minister for Finance recommends that the Committee:

1. **note** that COVID-19 has had a detrimental impact on small-to-medium businesses in New Zealand;
2. **agree** to provide additional financial support to small-to-medium businesses (based on the amount they received for up to 50 full-time employee equivalents as defined for the purposes of the wage subsidy scheme) in the form of a loan scheme;
3. **agree** that the purpose of the scheme is to provide immediate cash flow support to small to medium businesses;
4. **agree** that initiative is called the Small Business Cashflow Scheme;
5. **note** that this policy is part of the “first wave” of the Government’s economic response to COVID-19, which is “cushioning the blow”;

6. **agree** that sole traders are eligible for this scheme;
7. **agree** that the eligibility of state sector organisations to apply for this initiative will align with the settings of the wage subsidy scheme;
8. **agree** that the eligibility of organisational types (such as charities, and not-for-profit entities) will align with the settings of the wage subsidy scheme;
9. **agree** that the loan is made as a one-off, lump sum payment and is no greater than \$100,000 per eligible business;
10. **agree** that the loan should be calculated on a graduated basis;
11. **agree** that the loan to businesses be based on the number of full time equivalent employees as defined by the wage subsidy scheme, as declared and verified at the time of applying for the wage subsidy;
12. **agree** that businesses who did not receive the wage subsidy can apply through a bespoke application process by providing equivalent information to that required to apply for the wage subsidy;
13. **agree** a loan payment rate for businesses of \$2,000 per employee based on the business' full-time-equivalent numbers using the wage subsidy definition of full time (that is, 20 hours or more per week);
14. **agree** that, in addition to this payment per FTE, eligible businesses will receive a base rate of \$3,000 per business;
15. **note** that the costs are uncertain and will depend on the level of uptake, business failure rates and changing alert levels, and could be significantly higher than currently forecast;
16. **agree** that the scheme will be open until 12 June 2020, with a review of the scheme a week beforehand to assess if it should be extended;
17. **agree** that the scheme will be administered by Inland Revenue (IR) under new legislative authority;
18. **note** that IR will accept applications from 12 May 2020 onwards;
19. **note** that businesses will only be able to apply once within the period;

#### *Tax Implications*

20. **note** that businesses would not be subject to income tax on the loan they receive, and they would be able to claim deductions for the relevant expenditure;
21. **note** that GST registered businesses would not have to pay GST on the loan, with those businesses being able to claim input tax deductions for the relevant expenditure funded by the loan.

22. **delegate** authority to the Minister of Finance and the Minister of Revenue to make decisions on the technical details of the proposal recommended in this paper, and for the Minister of Revenue to include any required amendments in the COVID-19 Response (Taxation and Other Regulatory Urgent Measures) Bill to be introduced in the week beginning 27 April.

*Application Criteria*

23. agree that businesses will need to make the following self-declarations at the time of application:
- a. Their New Zealand Business Number;
  - b. That they are facing a 30% downturn in revenue as a result of the COVID19 restrictions (as required by the wage subsidy);
  - c. That they were a business in existence prior to 1 April 2020;
  - d. That they are still in business and acknowledge that the purpose of the loan is to provide working capital to support the business as a going concern
  - e. The number of employees that they applied for through the wage subsidy
24. **agree** to administer the scheme at pace using a high trust model;
25. **note** that IR has limited ability to verify information in the application before disbursing the payment, but will have some ability to later audit applications, including building in front-end mechanisms for verifying information supplied by businesses;

*Financial Implications*

26. **agree** to establish the new appropriation to give effect to the policy decisions in recommendations 2 to 19 above:

Portfolio	Minister	Title	Type	Scope
Revenue	Minister of Revenue	Small Business Cashflow Scheme COVID-19	Non-Departmental Capital Expenditure	This appropriation is limited to providing a loan to eligible businesses to manage the economic impacts of COVID-19.
Revenue	Minister of Revenue	Initial Fair Value Write-Down Relating to Small Business Cashflow Scheme COVID-19	Non-Departmental Other Expenses	This appropriation is limited to the to the initial fair value write-down of small business cashflow scheme COVID-19.

27. **agree** to a performance exemption under s15D(2)(b)(ii) of the Public Finance Act 1989, as additional performance information is unlikely to be informative as this appropriation is solely for payments related to the COVID-19 response;

28. **note** overall fiscal implications from the recommendations 2 to 19 have yet to be fully costed, therefore the impact on the operating balance and net core Crown debt is unclear at this point;
29. **note** the costs of the Initial Fair Value Write-Down are unclear at this point;
30. **delegate** authority to the Minister of Finance and the Minister of Revenue to increase the Initial Fair Value Write-Down Relating to Small Business Cashflow Scheme COVID-19 appropriation established in recommendation 26, once costings for the write-down are confirmed;
31. **approve** the following change to appropriations to give effect to the policy decisions in recommendations 2 to 19:

	\$m - increase/(decrease)				
<b>Vote Revenue Minister of Revenue</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24 &amp; outyears</b>
<b>Non-Departmental Capital Expenditure</b>					
Small Business Cashflow Scheme COVID-19	4,000	-	-	-	-
<b>Total Operating</b>	-	-	-	-	-
<b>Total Capital</b>	<b>4,000</b>	-	-	-	-

32. **approve** the following change to appropriations to fund Inland Revenue's administrative costs resulting from this policy:

	\$m - increase/(decrease)				
<b>Vote Revenue Minister of Revenue</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>
<b>Multi-Category Expenses and Capital Expenditure:</b>					
Services for Customers MCA					
Departmental Output Expenses: Investigations (funded by Crown Revenue)	-	-	-	-	-
	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>	<b>2027/28</b>	<b>2028/29 &amp; Outyears</b>
	1.000	1.000	1.000	1.000	-
	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>
Management of Debt and Outstanding Returns (funded by Crown revenue)	-	0.250	0.250	0.250	0.250
	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>	<b>2027/28</b>	<b>2028/29 &amp; Outyears</b>
	2.200	1.950	1.950	1.950	-
	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>
Services to Inform the Public About Entitlements and Meeting Obligations (funded by Crown revenue)	-	1.700	2.500	2.500	2.500



	2024/25	2025/26	2026/27	2027/28	2028/29 & Outyears
	-	-	-	-	-
	2019/20	2020/21	2021/22	2022/23	2023/24
Services to Process Obligations and Entitlements (funded by Crown revenue)	2.000	2.000	-	-	-
	2024/25	2025/26	2026/27	2027/28	2028/29 & Outyears
	-	-	-	-	-
	2019/20	2020/21	2021/22	2022/23	2023/24
<b>Total Operating</b>	2.150	3.950	2.750	3.000	2.750
	2024/25	2025/26	2026/27	2027/28	2028/29 & Outyears
	3.200	2.950	2.950	2.950	-

33. **delegate** authority to the Minister of Finance and the Minister of Revenue to increase funding for the loan scheme if required within the agreed policy decisions in this paper
34. **Note** that the value of the loans must be impaired immediately when they are made with the expense impacting on OBEGAL, with appropriations required for that, for the loans being issued, and for additional administration expenses.
35. **agree** that the above changes to appropriations for 2019/20 be included in the 2019/20 Additional Supplementary Estimates and that, in the interim, the increases be met from Imprest Supply;
36. **Agree** to establish a tagged capital contingency of up to the amount as follows in Vote Revenue, to provide for the build costs of the Small Business Cashflow Scheme should further planning reveal these costs would be unable to be met through baselines:

	(\$m)				
	2019/20	2020/21	2021/22	2022/23	2023/24 & outyears
Small Business Cashflow Scheme build cost – Tagged Capital Contingency	-	7.000	-	-	-
Small Business Cashflow Scheme build cost capital charge and depreciation – Tagged Operating Contingency	-	-	1.420	1.420	1.420

37. **Authorise** the Minister of Finance and the Minister of Revenue to jointly draw down the tagged contingency funding in recommendation 36, subject to their satisfaction with the outcome of the further work described in recommendation 33 above;
38. **Note** that the impact on net core Crown debt over the forecast period (2019/20 to 2023/24) from the Small Business Cashflow Scheme COVID-19 will be charged

against the COVID-19 Response and Recovery Fund established as part of Budget 2020;

39. **invite** the Minister of Finance and the Minister of Revenue to report back to Cabinet on the final design of the Small Business Cashflow Scheme COVID-19, fiscal implications to the Crown and the charge against the COVID-19 Response and Recovery Fund;
40. **authorise** the Minister of Finance and the Minister of Revenue to agree the final amount to be transferred, following completion of the 2019/20 audited financial statements of IRD or beforehand if necessary,
41. **authorise** the Minister of Finance and the Minister of Revenue to introduce a Supplementary Order Paper containing any required amendments at the committee of the whole House stage of the COVID-19 Response (Further Management Measures) Bill currently scheduled for introduction in the week beginning 4 May.
42. **authorise** the Minister of Finance and the Minister of Revenue to make minor policy and operational decisions related to the loan scheme, consistent with the policy in this Cabinet paper.

Authorised for lodgement

Hon Grant Robertson

Minister of Finance

# The Treasury

## Small Business Cashflow scheme (loan) Information Release

June 2020

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### Cabinet Document Details

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# Cabinet Economic Development Committee

## Minute of Decision

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### Small Business Cashflow Scheme (Loan)

**Portfolios**                      **Finance / Revenue / Small Business**

On 29 April 2020, the Cabinet Economic Development Committee:

- 1        **noted** the contents of the paper under DEV-20-SUB-0059;
- 2        **referred** the paper to Cabinet for further consideration on 4 May 2020;
- 3        **invited** the Ministers of Finance, Revenue and Small Business to undertake further consultation on the proposals to enable final decisions to be made by Cabinet on 4 May 2020, and to submit a revised paper to Cabinet if necessary.

Janine Harvey  
Committee Secretary

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**Present:**

Rt Hon Jacinda Ardern  
Rt Hon Winston Peters  
Hon Kelvin Davis  
Hon Grant Robertson (Chair)  
Hon Phil Twyford  
Hon Dr Megan Woods  
Hon Chris Hipkins  
Hon Andrew Little  
Hon Carmel Sepuloni  
Hon Dr David Clark  
Hon David Parker  
Hon Nanaia Mahuta  
Hon Stuart Nash  
Hon Iain Lees-Galloway  
Hon Jenny Salesa  
Hon Damien O'Connor  
Hon Kris Faafoi  
Hon Shane Jones  
Hon Poto Williams  
Hon James Shaw  
Hon Eugenie Sage

**Officials present from:**

Office of the Prime Minister  
Officials Committee for DEV

# The Treasury

## Introducing a Small Business Cashflow (loan) scheme Information Release

June 2020

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<https://uniteforrecovery.govt.nz/updates-and-resources/legislation-and-key-documents/proactive-release/>

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Office of the Minister of Finance  
Office of the Minister of Small Business  
Office of the Minister of Revenue  
Chair, Cabinet Economic Development Committee

## **Introducing a Small Business Cashflow (Loan) Scheme**

### **Proposal**

1. This paper seeks agreement to confirm discussions at an earlier Cabinet Committee meeting on the establishment of a loan scheme to assist small-to-medium businesses impacted by COVID-19.

### **Background**

2. COVID-19 has had an unprecedented impact on New Zealand businesses. The Government has already introduced a number of policies to support small-to-medium businesses, such as the wage subsidy scheme and the Business Finance Guarantee.
3. However, under the conditions of Level 4 and Level 3 of our alert framework, some viable businesses will not be able to generate any revenue for at least seven weeks. Others have minimal revenue not sufficient to meet a range of non-wage operating costs including rent, utilities and insurance.
4. Therefore, consistent with the Government's first wave economic response of "cushioning the blow", we propose introducing a Small Business Cashflow Scheme (SBCS) to help impacted viable businesses with immediate cash flow support.
5. If agreed, the SBCS will be delivered by the Inland Revenue Department (IRD) under a new legislative authority.

### **Executive Summary**

6. The impact of COVID-19 is felt strongly by smaller firms, many of whom have limited access to credit lines either because of their size or because banks may view them as riskier borrowers. Supporting these businesses is important to ensure we are well placed for an economic recovery under waves 2 and 3.
7. The scheme would provide a loan based on an approximation of firm size.
8. Firms with 50 full-time employees or fewer (defined by the wage subsidy as working 20 hours or more per week) will be eligible. Commonly owned groups of companies will be treated as a single firm when applying this 50 employee cap. Firms with a mix of full-time and part-time employees will be eligible, provided the amount of the wage

subsidy they received, or would be eligible to receive, is less than or equal to the amount received by a firm with 50 full-time employees.

9. Firms that have already received the wage subsidy will have to confirm that they remain impacted by COVID-19, and make further declarations that their business is ongoing (or will be as a result of receiving this loan), that they will use the money to pay for core business operating costs (including, but not limited to, rent, insurance, utilities, supplier payments, or rates); and that the benefit of the loan will not be passed through to the shareholders or owners of the business, for example, by a dividend or a loan to the shareholders or owners.
10. Firms that have not applied for the wage subsidy will also will be eligible to apply for the loan subject to declaring they have been impacted by COVID-19 and providing their full time equivalent employee numbers (using the wage subsidy definition of full time).
11. Basing eligibility on full-time equivalent employees allows for a mix of part-time and full-time employees.
12. The loan amount will be \$10,000, plus a further \$1,800 per equivalent full time employee (based on wage subsidy data). Eligible businesses will be able to receive up to a maximum of \$100,000.
13. The loan will generate 3% annualised interest payments from the point of issuance by IRD. During the 5 year period of the loan the following rules will apply:
  - 13.1 Loans completely repaid within 12 months of issuance will not be charged interest
  - 13.2 During the first 24 months no repayments are required on any outstanding debt
  - 13.3 During months 25 – 60 both principal and interest are payable on outstanding balances
14. The SBCS will be implemented by IRD at pace, using a high trust model (however, using the wage subsidy data provides some level of verification), pursuant to a new legislative authority to grant and administer the loans. Businesses will need to declare financial hardship, that they believe their business is viable, and that they will not pass the benefit from the loan through to their shareholders, from COVID-19 will be eligible to receive the loan. The SBCS will be available for applications from 12 May 2020 until 12 June 2020 – with Cabinet reviewing whether to extend the end date a week beforehand.

## **Design of the scheme**

15. We have considered a range of design parameters for the SBCS. In proposing the features of the SBCS below, we have considered the speed at which the scheme could be implemented by IRD. In order for this scheme to provide timely assistance to small and medium enterprises who have faced no or very little revenue as a result of Level 4 and Level 3 restrictions, it is necessary for there to be approval of the design

of the scheme this week. If approval is granted this would enable IRD to take applications for the scheme from the 12th of May.

16. We also considered a grant scheme. In our view a loan scheme is a more targeted means of assisting viable businesses in need.

### *Eligibility Criteria*

17. This scheme is designed to provide immediate support for viable businesses struggling because of loss of revenue. A core principle is to make eligibility as simple as possible to enable money to be rapidly available while balancing against this the need to be assured the money is going to businesses with genuine need.
18. We propose that the scheme will be available to viable businesses with 50 full-time employees or fewer (defined by the wage subsidy as working 20 hours or more per week). Commonly owned group of companies will be treated as a single firm when applying the 50 employee cap. Firms with a mix of full-time and part-time employees will be eligible provided the amount of the wage subsidy they received, or would be eligible to receive, is less than or equally to the amount received by a firm with 50 full-time employees.
19. Firms that have not applied for the wage subsidy will have their eligibility assessed in the same way.
20. We considered other ways of capping eligibility, including by firm turnover or by operating costs. These options were not pursued as IRD does not hold information on a firm's turnover or operating costs, and this information would be more onerous to verify and could delay implementation.
21. The decision to base the size of the firm on FTE rather than employee headcount ensures that firms with large proportions of part-time employees are also able to benefit fully from this scheme.
22. We also recommend that the eligibility of state sector organisations and of different organisational types (such as charities, and not-for-profit entities) to apply for this cash payment be aligned with the settings of the wage subsidy scheme.

### *Amount of the loan*

23. In setting the amount to be paid we considered the overall size of the fiscal response, and the average size of non-wage costs faced by small firms. As such we arrived at a payment that is graduated for firms, based on their size, with a maximum loan of \$100,000.
24. We also considered the need to share the burden of managing the impacts from COVID-19 between viable business and the government. We have done this by ensuring the loan is large enough to cover some but not all the businesses non-wage costs.



- 25.** We also considered the need to provide increased levels of support for very small businesses (e.g. sole traders). These businesses tend to have a higher proportion of non-wage costs, meaning a flat per-employee loan will provide proportionally less support. They are also less able to access other lending solutions to meet costs. For medium-sized businesses (i.e. nearer to the 50 FTE cap), we expect that they should be able to access the other forms of support that have been developed, such as the Business Finance Guarantee.
- 26.** We therefore propose a loan amount businesses of \$1,800 per employee based on the business' full-time-equivalent numbers. In addition to this payment per FTE, businesses will also be eligible for a base rate of \$10,000 per firm. This will provide proportionally more lending support to very small firms (i.e. sole traders and 1 – 2 employee businesses).
- 27.** For example:

Firm size	Base loan	Per FTE amount	Total loan
Sole trader	\$10,000	\$1,800	\$11,800
3 FTE	\$10,000	\$5,400	\$15,400
49 FTE	\$10,000	\$88,200	\$98,200

### How Businesses Can Apply for the SBCS

- 28.** Businesses will apply for the loan payment through their authenticated myIR account. In their application, we propose that they will need to declare:
- 28.1 Their New Zealand Business Number;
  - 28.2 That they have had or are projected to have a 30% downturn in revenue as a result of the COVID-19 restrictions (as required by the wage subsidy);
  - 28.3 That they were a business in existence prior to 1 April 2020;
  - 28.4 Declare that they are a viable ongoing business, and provide evidence of this to IRD
  - 28.5 Acknowledge that the purpose of the lending is to provide working capital to support the business as a going concern;
  - 28.6 That they will use the money to pay for core business operating costs (including, but not limited to, rent, insurance, utilities, supplier payments, or rates);
  - 28.7 That the benefit of the loan will not be passed through to the shareholders or owners of the business, for example, by a dividend or a loan to the shareholders or owners;
  - 28.8 Where the applicant has not received the wage subsidy, the number of full-time and part-time employees.
- 29.** Like the wage subsidy, this declaration will be subject to ex-post audit. Officials will further develop verification processes and work through whether any legislative change is required to allow such audits, requirements for repayment if the declaration

is incorrect and whether the name of loan recipients (trading or business name) should be published subject to consultation with the Office of the Privacy Commissioner.

30. Using the wage subsidy data as the basis for most applications means that the recipients will have already been vetted by MSD and IRD to some extent, thus reducing integrity concerns that would exist with requesting an entirely new data set.
31. Once approved, the loan will be paid in full to the applicant. There will not be any adjustment for any tax debt owed by the applicant.
32. While the application and payment under the SBCS will be highly automated, IRD will provide a bespoke application process to assist businesses that did not apply for the wage subsidy but would like to apply for the SBCS.

### **Other options considered**

33. In developing this scheme, we considered the following key criteria:
  - 33.1 Timeliness – the speed at which funds can be provided to firms
  - 33.2 Targeted – the need to focus support on firms who genuinely need it, and
  - 33.3 Fiscal sustainability – the fiscal cost of providing additional support.
34. Alongside the proposed loan scheme, we considered alternative small business support measures, as set out below.
35. *Providing a grant.* This would approximately double the fiscal cost of the scheme and we consider that this would mean that government support is less targeted because the fact that it is a loan which is repayable will mean that firms will think carefully about whether they need to take the funds.
36. *Lending a flat amount to all eligible firms.* This would provide the most support for the smallest firms and put less strain on IRD resources. However, the support would be poorly targeted across the different sizes of SMEs. Larger SMEs with higher costs would receive the same amount as smaller SMEs with lower costs. A graduated rate provides more proportional support across the spectrum of firm sizes.
37. *Excluding zero employee firms (sole traders).* This would reduce the fiscal cost of the scheme substantially. However, excluding these firms would push more people into the welfare system, and particularly into the Temporary Income Support Relief that is currently being considered.
38. We also considered whether to include large firms (those employing 50 or more full-time employees) in the scheme but capping the amount they can receive at \$100,000. There are proportionally very few large firms, so including them in this way would not significantly add to the fiscal cost. However, larger firms are more able to access other forms of support, including the Business Finance Guarantee. Instead, the scheme is aimed at smaller firms that cannot easily access alternative sources of finance, and that are facing closure decisions now.

- 39.** Several features of the scheme design will help alleviate the issue of providing support to firms that do not need it, including:
- 39.1 Requiring business owners to declare that their business has been negatively impacted by COVID-19, and that they need further support beyond that already provided by the wage subsidy;
  - 39.2 Require business owners to declare that their business is viable, and provide evidence to that effect to IRD.
  - 39.3 A cap on the total amount that can be lent to each firm; and
  - 39.4 A cap on the size of firms able to receive the payment;
  - 39.5 Firms will be able to choose a smaller loan amount than the amount they are eligible for;
  - 39.6 Officials will develop design features to facilitate audit and reduce the risk of fraud.

### **Tax Implications**

- 40.** As a loan, businesses would not be subject to income tax on the amount they receive and would be able to claim deductions for expenditure funded by the scheme.
- 41.** Similarly, GST registered businesses would not have to pay GST on the loan, with those businesses being able to claim input tax deductions for the relevant expenditure funded by the loan.

### **Technical details**

- 42.** There are number of technical details that will be needed to be designed before the scheme can be operational. These include establishing the standard legal terms of the loan and deciding how the loan will rank vis-à-vis other debt of businesses, the definition of separate businesses, and how to apply the FTE count cap. We propose that we are delegated to make these decisions over the course of the coming week.

### **Financial Implications**

- 43.** The Treasury advises that up to \$6.5 billion will be made available in lending through the SBCS. The costings are based on an assumption of 100 percent take up of the loan amount equal to \$10,000 for each firm plus \$1,800 for each FTE that the firm has applied for the wage subsidy on behalf of, up to a cap of \$100,000 which will be available to businesses with 50 or fewer FTE.
- 44.** With conservative estimates regarding non-payment/default, the fiscal costs to the Crown are likely to be at least 50% of an equivalent grant scheme, or \$3.25bn.
- 45.** Additionally, a loan scheme comes with enduring administrative costs

46. The final costs for the SBCS are highly uncertain. We have limited knowledge of the extent to which businesses will be willing to take on additional debt, but the initial interest free component is likely to increase the attractiveness of the scheme.
47. Nearly all businesses we expect to be eligible for this scheme have sought the wage subsidy payment. It is not known how many of the wage subsidy scheme population will not apply for this additional support, or how many might no longer meet the revenue loss test and are now ineligible for support.
48. Further uncertainty arises from the fact that we do not know the precise distribution of firms that will be eligible for the scheme. Instead, we only have the numbers of firms within brackets (0 employees, 1-3 employees, etc). This is an important variable as, by design, the scheme pays out in increasing amounts for larger firms. In estimating the costs, we assume that within brackets, firms are skewed towards the smaller end of the distribution. To the extent that the assumed skew is overly weighted towards the smaller end, we will have underestimated the cost, and vice versa.
49. To manage any unforeseen increases to the SBSC and to ensure that eligible businesses receive the loan, we propose Cabinet delegate to the Minister of Finance and the Minister of Revenue the authority to adjust the appropriation. This is consistent with the approach that has been implemented for the wage subsidy scheme. This can only be done consistent with the design of the scheme as agreed by Cabinet.

#### *Administrative costs*

50. IRD have estimated that it will cost approximately \$0.250 million to build the system to deliver the SBCS payments (which can be absorbed within baselines), and up to \$9.940 million to develop a system for repayments and debt collection/management. This \$9.940 million will be held in a tagged contingency, to be drawn down should IRD be unable to meet the second round of build costs from their baselines.
51. IRD have estimated that it will cost approximately \$26.500 million to administer the SBCS.

#### *Impact on the COVID-19 Recovery and Response Fund*

52. The SBCS will be charged against the COVID-19 Recovery and Response Fund (CRRF).
53. The value of the loans must be impaired immediately when they are made, in the same manner that occurs currently for student loans. The impairment will need to take into account the probability of non-recovery, the concessional interest rate, and an allowance for uncertainty. It would usually be calculated by estimating the expected cash flows from recoveries, applying a discount rate that reflects the risk, and comparing that to the amount lent. The initial impairment will impact the operating balance before gains and losses (OBEGAL). Adjustments are likely to be required over the life of the loans as the loan assets must not be reported at an amount greater than the amount that can be recovered.
54. To put the scheme into effect, three appropriations are required:

- 54.1 A non-departmental capital expenditure appropriation for the amount being lent;
  - 54.2 A non-departmental other expenses appropriation for the initial impairment being recognised on the loan; and
  - 54.3 A departmental output expense appropriation for the administration of the scheme.
55. To avoid double counting the net impact on net core Crown debt over the forecast period (2019/20 to 2023/24) will be counted against the CRRF.
56. At the stage, the fiscal implications to the Crown from the scheme are yet to be fully costed, therefore the impact on the operating balance and net core Crown debt is unclear.

### **Legislative Implications**

57. In accordance with section 65K of the Public Finance Act 1989, which prohibits the making of loans by the Crown except as expressly authorised by statute, new legislative authority will be required to allow IRD to make loans under the scheme.
58. We recommend that the Minister of Revenue include required amendments in the COVID-19 Response (Taxation + Other Regulatory Urgent Measures) Bill.

### **Regulatory Impact Statement**

59. The Treasury has determined that this proposal is a direct COVID-19 response and has suspended the RIA requirements in accordance with Cabinet decision (CAB-20-MIN-0138).

### **Consultation**

60. The Treasury has consulted with IRD and the Ministry of Business, Innovation and Employment, Ministry of Social Development. The Department of Prime Minister and Cabinet has been informed.

### **Communications**

61. The establishment of the scheme is expected to be communicated by the Minister of Finance shortly after these decisions.
62. Officials have prepared a communications pack to support the announcement.

### **Proactive Release**

63. This paper will be included in a future proactive release of documents associated with COVID-19.

### **Recommendations**

The Minister for Finance recommends that the Cabinet:

1. **note** that COVID-19 has had a detrimental impact on small-to-medium businesses in New Zealand;
2. **agree** to provide additional financial support to viable small-to-medium businesses (based on the amount they received for up to 50 full-time employee equivalents as defined for the purposes of the wage subsidy scheme) in the form of a loan scheme;
3. **agree** that the purpose of the scheme is to provide immediate cash flow support to viable small to medium businesses;
4. **agree** that initiative is called the Small Business Cashflow (Loan) Scheme;
5. **note** that this policy is part of the “first wave” of the Government’s economic response to COVID-19, which is “cushioning the blow”;
6. **agree** that sole traders are eligible for this scheme;
7. **agree** that the eligibility of organisational types (such as charities, and not-for-profit entities) will align with the settings of the wage subsidy scheme;
8. **agree** that the loan is made as a one-off, lump sum payment and is no greater than \$100,000 per eligible business;
9. **agree** that the loan should be calculated on a graduated basis;
10. **agree** that the loan to businesses be based on the number of full time equivalent employees as defined by the wage subsidy scheme, as declared and verified at the time of applying for the wage subsidy;
11. **agree** that businesses who did not receive the wage subsidy can apply through a bespoke application process by providing equivalent information to that required to apply for the wage subsidy as well as the requirements of this scheme;
12. **agree** a loan payment rate for businesses of \$1,800 per employee based on the business’ full-time-equivalent numbers using the wage subsidy definition of full time (that is, 20 hours or more per week);
13. **agree** that, in addition to this payment per FTE, eligible businesses will receive a base rate of \$10,000 per business;
14. **agree** that during the 5 year period of the loan the following rules will apply:
  - 14.1 Loans completely repaid within 12 months of issuance will not be charged interest
  - 14.2 During the first 24 months no repayments are required on any outstanding debt
  - 14.3 During months 25 – 60 both principal and interest are payable on outstanding balances

15. **agree** interest will accrue from the issuance of the loan by IRD at an annualised interest rate of 3%
16. **agree** that the loan will be granted subject to the terms of a legally binding loan contract
17. **agree** that the interest payments on the loan will be required to be made in accordance with the terms of the loan contract;
18. **agree** that the maximum term of the loan is 5 years
19. **note** that the costs of the scheme are uncertain and will depend on the level of uptake, business failure rates and changing alert levels;
20. **agree** that the scheme will be open until 12 June 2020, with a review of the scheme a week beforehand to assess if it should be extended;
21. **agree** that the scheme will be administered by IRD under new legislative authority;
22. **note** that IRD will accept applications from 12 May 2020 onwards;
23. **note** that businesses will only be able to apply once within the period;

#### *Tax Implications*

24. **note** that, as a loan, businesses would not be subject to income tax on the loan they receive, and they would be able to claim deductions for expenditure funded by the scheme, and that officials are working through the tax and social policy consequences;
25. **note** that GST registered businesses would not have to pay GST on the loan, with those businesses being able to claim input tax deductions for the relevant expenditure funded by the loan;
26. **delegate** authority to the Minister of Revenue to include amendments for this proposal in the COVID-19 Response (Taxation and Other Regulatory Urgent Measures) Bill.

#### *Application Criteria*

27. **Agree** that businesses will need to make the following declarations at the time of application:
  - a. Their New Zealand Business Number;
  - b. That they have had or are projected to have a 30% downturn in revenue as a result of the COVID19 restrictions (as required by the wage subsidy);
  - c. That they were a business in existence prior to 1 April 2020;
  - d. That they are a viable, ongoing business and evidence is provided of their ongoing viability;

- e. Acknowledge that the purpose of the loan is to provide working capital to support the business as a going concern;
  - f. They will use the money to pay for core business operating costs (including, but not limited to, rent, insurance, utilities, supplier payments, or rates);
  - g. That the benefit of the loan will not be passed through to the shareholders or owners of the business, for example, by a dividend or a loan to the shareholders or owners;
  - h. The number of employees that they applied for through the wage subsidy
28. **agree** that IRD will audit applications using verification mechanisms that are under development and will be backed as necessary by legislative requirements;

*Financial Implications*

29. **agree** to establish the new appropriation to give effect to the policy decisions in recommendations 2 to 20 above:

Portfolio	Minister	Title	Type	Scope
Revenue	Minister of Revenue	Small Business Cashflow Scheme COVID-19	Non-Departmental Capital Expenditure	This appropriation is limited to providing a loan to eligible businesses to manage the economic impacts of COVID-19.
Revenue	Minister of Revenue	Initial Fair Value Write-Down Relating to Small Business Cashflow Scheme COVID-19	Non-Departmental Other Expense	This appropriation is limited to the to the initial fair value write-down of small business cashflow scheme COVID-19.

30. **agree** to a performance exemption under s15D(2)(b)(ii) of the Public Finance Act 1989, as additional performance information is unlikely to be informative as this appropriation is solely for payments related to the COVID-19 response;
31. **note** overall fiscal implications from the recommendations 2 to 20 have yet to be fully costed, therefore the impact on the operating balance and net core Crown debt is unclear at this point;
32. **note** the costs of the Initial Fair Value Write-Down are unclear at this point;
33. **delegate** authority to the Minister of Finance and the Minister of Revenue to increase the Initial Fair Value Write-Down Relating to Small Business Cashflow Scheme COVID-19 appropriation established in recommendation 26, once costings for the write-down are confirmed;
34. **delegate** authority to the Minister of Finance to make changes to appropriations to give effect to the policy decisions in recommendations 2 to 20 once the final costs of the policy have been finalised;



35. **note** that the value of the loans must be impaired immediately when they are made with the expense impacting on OBEGAL, with appropriations required for that, for the loans being issued, and for additional administration expenses.
36. **agree** that the above changes to appropriations for 2019/20 be included in the 2019/20 Additional Supplementary Estimates and that, in the interim, the increases be met from Imprest Supply;
37. **agree** to establish a tagged capital contingency of up to the amount as follows in Vote Revenue, to provide for the build costs of the Small Business Cashflow Scheme should further planning reveal these costs would be unable to be met through baselines:

	(\$m)				
	2019/20	2020/21	2021/22	2022/23	2023/24 & outyears
Small Business Cashflow Scheme build cost – Tagged Capital Contingency	-	7.000	-	-	-
Small Business Cashflow Scheme build cost capital charge and depreciation – Tagged Operating Contingency	-	-	1.420	1.420	1.420

38. **Authorise** the Minister of Finance and the Minister of Revenue to jointly draw down the tagged contingency funding in recommendation 34, subject to their satisfaction with the outcome of the further work described in recommendation 33 above;
39. **note** that the impact on net core Crown debt over the forecast period (2019/20 to 2023/24) from the Small Business Cashflow Scheme COVID-19 will be charged against the COVID-19 Response and Recovery Fund established as part of Budget 2020;
40. **invite** the Minister of Finance and the Minister of Revenue to report back to Cabinet on the final design of the Small Business Cashflow Scheme COVID-19, fiscal implications to the Crown and the charge against the COVID-19 Response and Recovery Fund;
41. **authorise** the Minister of Finance and the Minister of Revenue to agree the final amount to be transferred, following completion of the 2019/20 audited financial statements of IRD or beforehand if necessary,
42. **authorise** the Minister of Finance and the Minister of Revenue to make minor policy and operational decisions related to the loan scheme, consistent with the policy in this Cabinet paper.

Authorised for lodgement

Hon Grant Robertson

Minister of Finance

# The Treasury

## Introducing a Small Business Cashflow (loan) scheme Information Release

June 2020

This document has been prepared for release by the Treasury:

<https://uniteforrecovery.govt.nz/updates-and-resources/legislation-and-key-documents/proactive-release/>

### Context

Policy decisions on the Small Business Cashflow Loan Scheme were taken in this Cabinet paper.

### Cabinet Document Details

Title: **CAB-20-MIN-0196: Introducing a Small Business Cashflow (loan) scheme**

Date: **15 May 2020**

Creator: Cabinet Office

### No information has been withheld

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# Cabinet

## Minute of Decision

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*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.*

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### Introducing a Small Business Cashflow (Loan) Scheme

**Portfolio**                      **Finance, Revenue, Small Business**

On 30 April 2020, the Cabinet:

- 1        **noted** that COVID-19 has had a detrimental impact on small-to-medium businesses in New Zealand;
- 2        **agreed** to provide additional financial support to viable small-to-medium businesses (based on the amount they received for up to 50 full-time employee equivalents as defined for the purposes of the wage subsidy scheme) in the form of a loan scheme;
- 3        **agreed** that the purpose of the scheme is to provide immediate cash flow support to viable small to medium businesses;
- 4        **agreed** that initiative is called the Small Business Cashflow (Loan) Scheme;
- 5        **noted** that this policy is part of the “first wave” of the government’s economic response to COVID-19, which is “cushioning the blow”;
- 6        **agreed** that sole traders are eligible for this scheme;
- 7        **agreed** that the eligibility of organisational types (such as charities, and not-for-profit entities) will align with the settings of the wage subsidy scheme;
- 8        **agreed** that the loan is made as a one-off, lump sum payment and is no greater than \$100,000 per eligible business;
- 9        **agreed** that the loan should be calculated on a graduated basis;
- 10      **agreed** that the loan to businesses be based on the number of full time equivalent employees as defined by the wage subsidy scheme, as declared and verified at the time of applying for the wage subsidy;
- 11      **agreed** that businesses who did not receive the wage subsidy can apply through a bespoke application process by providing equivalent information to that required to apply for the wage subsidy as well as the requirements of this scheme;
- 12      **agreed** to a loan payment rate for businesses of \$1,800 per employee based on the business’ full-time-equivalent numbers using the wage subsidy definition of full time (that is, 20 hours or more per week);

- 13 **agreed** that, in addition to this payment per FTE, eligible businesses will receive a base rate of \$10,000 per business;
- 14 **agreed** that during the 5 year period of the loan the following rules will apply:
- 14.1 loans completely repaid within 12 months of issuance will not be charged interest;
  - 14.2 during the first 24 months no repayments are required on any outstanding debt;
  - 14.3 during months 25 – 60 both principal and interest are payable on outstanding balances;
- 15 **agreed** interest will accrue from the issuance of the loan by IRD at an annualised interest rate of 3%;
- 16 **agreed** that the loan will be granted subject to the terms of a legally binding loan contract;
- 17 **agreed** that the interest payments on the loan will be required to be made in accordance with the terms of the loan contract;
- 18 **agreed** that the maximum term of the loan is 5 years;
- 19 **noted** that the costs of the scheme are uncertain and will depend on the level of uptake, business failure rates and changing alert levels;
- 20 **agreed** that the scheme will be open until 12 June 2020, with a review of the scheme a week beforehand to assess if it should be extended;
- 21 **agreed** that the scheme will be administered by IRD under new legislative authority;
- 22 **noted** that IRD will accept applications from 12 May 2020 onwards;
- 23 **noted** that businesses will only be able to apply once within the period;

### *Tax Implications*

- 24 **noted** that, as a loan, businesses would not be subject to income tax on the loan they receive, and they would be able to claim deductions for expenditure funded by the scheme, and that officials are working through the tax and social policy consequences;
- 25 **noted** that GST registered businesses would not have to pay GST on the loan, with those businesses being able to claim input tax deductions for the relevant expenditure funded by the loan;
- 26 **noted** that the Minister of Revenue has included amendments to provide for this proposal in the COVID-19 Response (Taxation and Other Regulatory Urgent Measures) Bill;

### *Application Criteria*

- 27 **agreed** that businesses will need to make the following declarations at the time of application:
- 27.1 their New Zealand Business Number;
  - 27.2 that they have had or are projected to have a 30% downturn in revenue as a result of the COVID19 restrictions (as required by the wage subsidy);

- 27.3 that they were a business in existence prior to 1 April 2020;
- 27.4 that they are a viable, ongoing business and evidence is provided of their on-going viability;
- 27.5 acknowledge that the purpose of the loan is to provide working capital to support the business as a going concern;
- 27.6 they will use the money to pay for core business operating costs (including, but not limited to, rent, insurance, utilities, supplier payments, or rates);
- 27.7 that the benefit of the loan will not be passed through to the shareholders or owners of the business, for example, by a dividend or a loan to the shareholders or owners;
- 27.8 the number of employees that they applied for through the wage subsidy;
- 28 **agreed** that IRD will audit applications using verification mechanisms that are under development and will be backed as necessary by legislative requirements;

### *Financial Implications*

- 29 **agreed** to establish the new appropriation to give effect to the policy decisions in paragraphs 2 to 23 above:

Portfolio	Minister	Title	Type	Scope
Revenue	Minister of Revenue	Small Business Cashflow Scheme COVID-19	Non-Departmental Capital Expenditure	This appropriation is limited to providing a loan to eligible businesses to manage the economic impacts of COVID-19.
Revenue	Minister of Revenue	Initial Fair Value Write-Down Relating to Small Business Cashflow Scheme COVID-19	Non-Departmental Other Expense	This appropriation is limited to the to the initial fair value write-down of small business cashflow scheme COVID-19.

- 30 **agreed** to a performance exemption under s15D(2)(b)(ii) of the Public Finance Act 1989, as additional performance information is unlikely to be informative as this appropriation is solely for payments related to the COVID-19 response;
- 31 **noted** that the overall fiscal implications from the proposals in paragraphs 2 to 23 have yet to be fully costed, therefore the impact on the operating balance and net core Crown debt is unclear at this point;
- 32 **noted** that the costs of the Initial Fair Value Write-Down are unclear at this point;
- 33 **delegated** authority to the Minister of Finance and the Minister of Revenue to increase the Initial Fair Value Write-Down Relating to Small Business Cashflow Scheme COVID-19 appropriation established in paragraph 29, once costings for the write-down are confirmed;
- 34 **delegated** authority to the Minister of Finance to make changes to appropriations to give effect to the policy decisions in paragraphs 2 to 23 once the final costs of the policy have been finalised;

- 35 **noted** that the value of the loans must be impaired immediately when they are made with the expense impacting on OBEGAL, with appropriations required for that, for the loans being issued, and for additional administration expenses;
- 36 **agreed** that the above changes to appropriations for 2019/20 be included in the 2019/20 Additional Supplementary Estimates and that, in the interim, the increases be met from Imprest Supply;
- 37 **agreed to establish a tagged capital contingency of up to the amount as follows in Vote Revenue, to provide for the build costs of the Small Business Cashflow Scheme should further planning reveal these costs would be unable to be met through baselines:**

	(\$m)				
	2019/20	2020/21	2021/22	2022/23	2023/24 & outyears
Small Business Cashflow Scheme build cost – Tagged Capital Contingency	-	7.000	-	-	-
Small Business Cashflow Scheme build cost capital charge and depreciation – Tagged Operating Contingency	-	-	1.420	1.420	1.420

- 38 **authorised** the Minister of Finance and the Minister of Revenue to jointly draw down the tagged contingency funding in paragraph 37, subject to their satisfaction with the outcome of the further work described in paragraph 33 above;
- 39 **noted** that the impact on net core Crown debt over the forecast period (2019/20 to 2023/24) from the Small Business Cashflow Scheme COVID-19 will be charged against the COVID-19 Response and Recovery Fund established as part of Budget 2020;
- 40 **invited** the Minister of Finance and the Minister of Revenue to report back to Cabinet on the final design of the Small Business Cashflow Scheme COVID-19, fiscal implications to the Crown and the charge against the COVID-19 Response and Recovery Fund;
- 41 **authorised** the Minister of Finance and the Minister of Revenue to agree the final amount to be transferred, following completion of the 2019/20 audited financial statements of IRD or beforehand if necessary,
- 42 **authorised** the Minister of Finance and the Minister of Revenue to make minor policy and operational decisions related to the loan scheme, consistent with the policy in this Cabinet paper.

Michael Webster  
Secretary of the Cabinet

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# The Treasury

## COVID-19 Information Release

### June 2020

This document has been prepared for release by the Treasury:

<https://uniteforrecovery.govt.nz/updates-and-resources/legislation-and-key-documents/proactive-release/>

#### 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:

[23] 9(2)(a) - to protect the privacy of natural persons, including deceased people

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**Tax policy report: Small Business Loan Scheme – Further Decisions**

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<b>Date:</b>	5 May 2020	<b>Priority:</b>	High
<b>Security level:</b>	In Confidence	<b>Report number:</b>	IR2020/237 T2020/1347

**Action sought**

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	<b>Action sought</b>	<b>Deadline</b>
Minister of Finance	<b>Agree</b> to the proposed approach to defining ongoing viability as defined in this report.	5 May 2020
Minister of Revenue	<b>Agree</b> to the proposed approach to defining ongoing viability as defined in this report.	5 May 2020

**Contact for telephone discussion (if required)**

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<b>Name</b>	<b>Position</b>	<b>Telephone</b>
Jean Le Roux	Manager	[23]
Emma Grigg	Policy Director	[23]

5 May 2020

Minister of Finance  
Minister of Revenue

## **Small Business Loan Scheme – Further Decisions**

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### **Background**

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1. Cabinet has taken decisions to establish a loan scheme for small to medium businesses affected by COVID-19. CAB-20-MIN-0196 refers.
2. The goal is to establish the scheme quickly so as to provide support for businesses that have already experienced several weeks of no revenue while New Zealand was in Levels 4 and 3. Inland Revenue is working to a go-live date of 12 May.
3. Speed – both of building the system and approving applications - is influencing the design of the scheme.
4. This report seeks Ministers' confirmation of key design decisions signalled in the meeting with officials on 4 May.
5. The report also sets out the process that will be needed to ensure other decisions are taken within timeframes that support the scheme's timely delivery.

### **Confirmation of design decisions**

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6. A key design decision for the scheme is how Inland Revenue meets Cabinet's requirement that the application provide evidence of ongoing viability. This is closely related to what, post-facto, Inland Revenue will do by way of audit.

### **Evidence of ongoing viability**

7. Cabinet has agreed that business will have to make certain declarations when applying for the loan. One of these is "that they are a viable, ongoing business and evidence is provided of their on-going viability."
8. The principal check that Inland Revenue is able to make of ongoing viability is whether the business has gone into liquidation.
9. The application process and loan documentation will also require applicants to confirm by way of declaration that:
  - They have experienced or anticipate experiencing a 30% decline in revenue (the same as the Wage Subsidy)
  - They are currently viable
  - They have a plan for how their business will remain viable
  - They will spend the loan on core operating costs (including, but not limited to, rent, insurance, utilities, supplier payments, or rates)
  - The benefit of the loan will not be passed through to the shareholders or owners of the business, for example, by a dividend or a loan to the shareholders or owners.

10. Inland Revenue will test that these declarations have been made within the application (and reject applications where the declarations have not been made) but will not investigate these declarations.
11. Officials have considered other possible tests of viability. These include having an accountant or some other third party certify the business is viable or examining the organisation's tax compliance history or current tax compliance status.
12. Each of these might provide useful indicators about some businesses. However, they will be imperfect measures to apply across all applicants. They would not necessarily provide meaningful evidence around viability, would involve Inland Revenue in significant checking and impose compliance costs on applicants. They would therefore frustrate the goal of having a scheme that will deliver support to firms quickly.

### ***Audit requirements***

13. Cabinet has agreed that "IRD will audit applications using verification mechanisms that are under development and will be backed as necessary by legislative requirements".
14. The documentation for the application process will highlight that IR may audit recipients.
15. IR will apply its compliance tools, such as data analytics around applicants' subsequent tax compliance, to guide its selection of potential audit leads.
16. Each of the declarations specified above at paragraph 10 provides something that Inland Revenue can test in an audit.
17. As part of the application documentation, Inland Revenue will indicate that recipients should hold information that supports the declarations they have made, which can be produced should they be audited. Inland Revenue will provide guidance about the types of information that organisations could hold. These include:
  - Resolutions of the company directors that demonstrate reasonable expectations of ongoing viability
  - A statement from an independent third party around financial health or reasonableness of cash flow projections
  - Records of how the loan money has been spent
18. Officials are investigating with external parties whether there are other appropriate documents to suggest.
19. Holding these documents will not be mandatory. For instance, a sole trader would not have a company resolution. But this will provide applicants with guidance as to what is expected of them, both at the point of application and in their subsequent use of the loan. In this way, the approach to audit will strengthen the specific requirements imposed on the applications with respect to providing evidence of ongoing viability.

### ***Confirmation of decisions***

20. At the meeting with officials on 4 May 2020, you indicated your comfort with the approach described above with respect to evidence of ongoing viability and approach to audit. This report seeks your confirmation of these proposals.

21. Because of the extremely tight timeframes associated with delivering the scheme by 12 May, Inland Revenue has now commenced building the system based on this approach. Any alternative approach is likely to affect Inland Revenue's ability to meet that deadline.

### Process for further decisions

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22. We anticipate providing you with two further reports this week.
23. There is growing pressure from the business community to provide guidance on the terms of the scheme. IR is producing material for their website to assist businesses to prepare to apply from next week. We will provide you with a report tomorrow that attaches IR's communication material, the term sheet for the loan, and advice on a final loan scheme design parameters for your decision.
24. Further decisions will be required in order to develop the scheme. These include:
- Legislative amendments. The Bill that was passed last week provides the core authority for the scheme to proceed. However, there are a small number of additional amendments needed to clarify the information sharing agreement between MSD and Inland Revenue and to ensure the Commissioner's powers are able to be used in administering the scheme (for instance around debt management where loan monies remain unpaid).
  - Approving the fiscal costs of the scheme
  - Approving Inland Revenue's costs for administering the scheme.
25. We will provide you with a report and draft Cabinet paper later this week for Cabinet consideration on 11 May. With respect to the legislative amendments, we anticipate effecting these through an SOP at the Committee of the Whole stage of the COVID-19 Response (Further Management Measures) Legislation Bill that is scheduled for enactment on 13 May.

### Recommended action

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We recommend that you:

26. **note** that the desired speed of system build and loan provision for the Small Business Loan Scheme impact on the information and evidence that can be sought from applicants.
- |       |       |
|-------|-------|
| Noted | Noted |
|-------|-------|
27. **agree** that the evidence of ongoing viability will be assessed through checking the applicant has not gone into liquidation and through the applicant declaring that they are currently viable and that they have a plan to ensure they remain viable
- |                   |                   |
|-------------------|-------------------|
| Agreed/Not agreed | Agreed/Not agreed |
|-------------------|-------------------|
28. **agree** that Inland Revenue will not verify the declarations when it processes the applications
- |                   |                   |
|-------------------|-------------------|
| Agreed/Not agreed | Agreed/Not agreed |
|-------------------|-------------------|
29. **note** that Inland Revenue will audit some applicants after they have received the loan and will highlight this possibility during the application process
- |       |       |
|-------|-------|
| Noted | Noted |
|-------|-------|

30. **agree** that Inland Revenue will focus its audits of loan recipients on information relating to the declarations made during the application process

Agreed/Not agreed

Agreed/Not agreed

31. **note** that as part of the loan application documentation, Inland Revenue will publish a checklist of information that loan recipients should hold on file as a way of demonstrating compliance with the requirements of the loan scheme should then be audited

Noted

Noted

32. **note** that Treasury and Inland Revenue will provide you with a report and draft Cabinet paper later this week to enable further decisions relating to the loan scheme to be made quickly

Noted

Noted

**Jean Le Roux**

Manager  
The Treasury

**Emma Grigg**

Policy Director  
Policy and Strategy, Inland Revenue

**Hon Grant Robertson**

Minister of Finance  
/ /2020

**Hon Stuart Nash**

Minister of Revenue  
/ /2020

# The Treasury

## COVID-19 Information Release

### June 2020

This document has been prepared for release by the Treasury:

<https://uniteforrecovery.govt.nz/updates-and-resources/legislation-and-key-documents/proactive-release/>

#### 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:

[23] 9(2)(a) - to protect the privacy of natural persons, including deceased people

[39] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage

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**Tax policy report:      Small Business Cashflow (Loan) Scheme – Further  
Legislation and Other Decisions**

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<b>Date:</b>	7 May 2020	<b>Priority:</b>	High
<b>Security level:</b>	Budget Sensitive	<b>Report number:</b>	IR2020/243 T2020/1402

**Action sought**

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	<b>Action sought</b>	<b>Deadline</b>
Minister of Finance	<b>Agree</b> to recommendations	8 May 2020
Minister of Revenue	<b>Agree</b> to recommendations	8 May 2020

**Contact for telephone discussion (if required)**

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<b>Name</b>	<b>Position</b>	<b>Telephone</b>
Emma Grigg	Policy Director	[23]
James Beard	(Acting) Deputy Secretary, Macroeconomics and Growth, Treasury	[23]



7 May 2020

Minister of Finance  
Minister of Revenue

## **Small Business Cashflow (Loan) Scheme – Further Legislation and Other Decisions**

### **Executive summary**

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1. On 30 April, Cabinet took decisions to establish a loan scheme – the Small Business Cashflow (Loan) Scheme (the Scheme) - for small to medium businesses affected by COVID-19.
2. This week you have taken further decisions around the design of the Scheme.
3. This report seeks your approval of further elements of the Scheme:
  - The fiscal cost
  - Inland Revenue's cost for administering the Scheme
  - Further design details
  - Further legislative amendments necessary for administering the Scheme.
4. A draft Cabinet paper is attached for your consideration. It seeks Cabinet's approval to introduce further legislation to support the Scheme.
5. The Cabinet paper also reports on the design of the Scheme and its cost in fulfilment of Cabinet's request.
6. This report and the costings in relation to the scheme have been prepared under significant time pressure, because of the need to finalise the details of the scheme before it goes live on Tuesday 12 May. This time pressure has created a risk of errors and oversights.
7. Officials will also monitor the implementation of the scheme with a view to identifying any errors, oversights or unintended outcomes. Officials will report back to Joint Ministers if any further changes to the design of the scheme are required.
8. Treasury intends to seek a quality assurance review of the fiscal model before the next Economic and Fiscal Update.



Noted

Noted

- 4.2 **approve** the following changes to appropriations to give effect to the Small Business Cashflow (Loan) Scheme:

Vote Revenue Minister of Revenue	\$m - increase/(decrease)				2023/24 & outyears
	2019/20	2020/21	2021/22	2022/23	
<b>Non-departmental Other Expense</b> Initial Fair Value Write-Down Relating to Small Business Cashflow Scheme COVID-19	3,444	-	-	-	-
<b>Non-Departmental Capital Expenditure</b> Small Business Cashflow Scheme COVID-19	5,200	-	-	-	-
<b>Total Operating</b>	<b>3,444</b>	-	-	-	-
<b>Total Capital</b>	<b>5,200</b>	-	-	-	-

Approve/Do not approve

Approve/Do not approve

**OR**

- 4.3 **note** you have agreed to recommendation 1.4, which has the following fiscal impacts;

Noted

Noted

- 4.4 **approve** the following changes to appropriations to give effect to the Small Business Cash-flow Scheme:

Vote Revenue Minister of Revenue	\$m - increase/(decrease)				2023/24 & outyears
	2019/20	2020/21	2021/22	2022/23	
<b>Non-departmental Other Expense</b> Initial Fair Value Write-Down Relating to Small Business Cashflow Scheme COVID-19	2,207	-	-	-	-
<b>Non-Departmental Capital Expenditure</b> Small Business Cashflow Scheme COVID-19	3,900	-	-	-	-
<b>Total Operating</b>	<b>2,207</b>	-	-	-	-
<b>Total Capital</b>	<b>3,900</b>	-	-	-	-

Approve/Do not approve

Approve/Do not approve

5. **agree** the following change to appropriations to fund Inland Revenue's administrative costs for administering the Scheme:

Vote Revenue Minister of Revenue	\$m - increase/(decrease)				
	2019/20	2020/21	2021/22	2022/23	2023/24
Multi-Category Expenses and Capital Expenditure: Services for Customers MCA Departmental Output Expenses: Investigations (funded by Crown Revenue)	-	-	-	-	-
	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>	<b>2027/28</b>	<b>2028/29 &amp; Outyears</b>
	1.000	1.000	1.000	1.000	-
Management of Debt and Outstanding Returns (funded by Crown revenue)	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>
	-	0.250	0.250	0.250	0.250
	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>	<b>2027/28</b>	<b>2028/29 &amp; Outyears</b>
	2.200	1.950	1.950	1.950	-
Services to Inform the Public About Entitlements and Meeting Obligations (funded by Crown revenue)	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>
	-	1.700	2.500	2.750	2.500
	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>	<b>2027/28</b>	<b>2028/29 &amp; Outyears</b>
	-	-	-	-	-
Services to Process Obligations and Entitlements (funded by Crown revenue)	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>
	2.000	2.000	-	-	-
	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>	<b>2027/28</b>	<b>2028/29 &amp; Outyears</b>
	-	-	-	-	-
<b>Total Operating</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>
	2.000	3.950	2.750	3.000	2.750
	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>	<b>2027/28</b>	<b>2028/29 &amp; Outyears</b>
	3.200	2.950	2.950	2.950	-

Agreed/Not agreed

Agreed/Not agreed

6. **agree** that the above changes to appropriations for 2019/20 and 2020/21 be included in the 2019/20 Additional Supplementary Estimates and the 2020/21 Supplementary Estimates and that, in the interim, the increases be met from Imprest Supply;

Agreed/Not agreed

Agreed/Not agreed

7. **agree** that the expenses incurred under the recommendations above be charged against the COVID-19 Response and Recovery Fund established as part of Budget 2020;

Agreed/Not agreed

Agreed/Not agreed

8. **agree** that applicants with 50 full time equivalent employees be eligible for the Scheme

Agreed/Not agreed

Agreed/Not agreed

9. **agree** to the following legislative amendments:

9.1 Permit Inland Revenue to use existing care and management, and debt management provisions to administer the Scheme.

9.2 Change the existing information sharing provision to ensure it is wide enough for Inland Revenue to administer the Scheme.

9.3 Ensure interest payable under a loan is not subject to resident withholding tax.

9.4 Do not count loan amounts in the definition of income for Working for Families.

9.5 Repeal the redundant provision relating to the conversion of a portion of the loan to a grant.

Agreed/Not agreed

Agreed/Not agreed

10. **note** the attached Cabinet paper at Appendix 1 which seeks approval for the introduction of a Supplementary Order Paper to the COVID-19 Response (Further Management Measures) Legislation Bill containing the above amendments to support the Small Business Cashflow (Loans) Scheme.

Noted

Noted

11. **agree** to lodge the Cabinet paper for the Cabinet meeting on 11 May 2020.

Agreed/Not agreed

Agreed/Not agreed

[39]

[39]

**James Beard**  
(Acting) Deputy Secretary  
The Treasury

**Emma Grigg**  
Policy Director  
Policy and Strategy, Inland Revenue

**Hon Grant Robertson**  
Minister of Finance  
/ /2020

**Hon Stuart Nash**  
Minister of Revenue  
/ /2020



## Background

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12. On 30 April, Cabinet took decisions to establish a loan scheme – the Small Business Cashflow (Loans) Scheme (the Scheme) for small to medium businesses affected by COVID-19. CAB-20-MIN-0196 refers.
13. The goal is to establish the Scheme quickly so as to provide support for businesses that have already experienced several weeks of no revenue while New Zealand was in Levels 4 and 3. Inland Revenue is working to a go-live date of 12 May.
14. Cabinet delegated authority to you, as Joint Ministers:
  - to determine the Initial Fair Value Write-Down Relating to Small Business Cashflow Scheme COVID-19 appropriation, and
  - to make minor policy and operational decisions related to the loan scheme, consistent with the policy in this Cabinet paper.
15. Cabinet also delegated to the Minister of Finance authority to make changes to appropriations to give effect to the policy decisions once the final costs of the policy have been finalised.
16. The terms, and particularly the security and ranking of the SBCS loans, are a key driver of uptake and therefore the effectiveness and fiscal costs of the scheme. This report seeks your decision on these key terms and the default interest rate.
17. This paper seeks a series of decisions from you jointly or singly as appropriate relevant to those delegations. These decisions cover:
  - The estimated fiscal costs of the Scheme
  - Inland Revenue's costs for administering the Scheme
  - Various remaining policy decisions. These are in addition to decisions you have already made under your delegated authority (IR2020/237, T2020/1347; and IR2020/245, T2020/1362 refer)
  - Agreement to further legislative amendments.
18. Legislative amendments that enabled this Scheme were included in the COVID-19 Response (Taxation and Other Regulatory Urgent Measures) Bill. A small number of additional amendments have now been identified. These are explained in this paper.
19. Attached to this paper is a draft Cabinet paper. The paper seeks approval for the remaining legislative amendments to be included in an SOP to the COVID-19 Response (Further Management Measures) Legislation Bill at the Committee of the Whole stage scheduled on 12 May.
20. The Cabinet paper also informs Cabinet of the decisions you have taken, in fulfilment of the request that you report back on the final design of the Small Business Cashflow Scheme COVID-19, fiscal implications to the Crown and the charge against the COVID-19 Response and Recovery Fund.

## Key terms of the SBCS loan – security and ranking of the debt

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21. In structuring the SBCS loan, there is a key choice about what ranking the debt should have in the case of a borrower entering receivership. It is important to consider the purpose of the loan being provided, noting that these will generally be small loans designed to support SME's cashflow. There is no intention nor would it be practical (timely or cost effective) for the IRD to register any security in relation to the loans, as such these loans will by necessity be unsecured.

22. Given the fact that the IRD will be the issuer of the loans consideration was also given to whether these loans could benefit from a priority such as a super priority (ahead of secured creditors) or as a preferential creditor as is the case for some of the payments owed to the IRD.
23. Seeking a legislative change enabling a super priority in order to have the IRD's loan rank ahead of secured creditors has the potential to cause issues for other secured creditors, particularly the banks. We expect this would have adversely affect bank support for companies taking up the SBCS loan. Likewise seeking legislative change for payments under the loan to rank as a preferred creditor would have implications for others preferred creditors including other amounts owing to the IRD.
24. The benefit of the IRD ranking ahead of other unsecured creditors would be that should a borrower go into receivership, the IRD would increase the value of its recoveries. However, this would also impact on other unsecured creditors, who by virtue of the IRD recovering ahead of them would recover less money.
25. If the IRD were to hold a super priority, it is likely that this would greatly reduce the uptake of the loan, as consent from the secured parties is likely to be time consuming.
26. The alternative to the IRD's loan having a priority is that the SBCS loan is advanced on an unsecured basis and ranking pari-passu (on equal footing with other unsecured creditors). The IRD will retain its normal powers to pursue borrowers in the event of a default. When it comes to debt collection, Inland Revenue has statutory duties to maximise its recovery of outstanding tax. It does this in a number of ways, from customer contact at one end, to compulsory deduction notices and, in extreme cases, bankruptcy at the other end. Within this range are Inland Revenue's powers to give financial relief by instalment arrangements or writing off tax debt, where the customer is in financial difficulty, or hardship.
27. Companies with existing loans may face restrictions to their ability to incur additional debt (through the use of 'permitted indebtedness' clauses). However the general consensus from our advisors is that existing lenders are likely to permit companies to borrow additional funds from the IRD, given the economic climate, particularly if that debt is unsecured.
28. Given the objective of the SBCS loan is to provide immediate liquidity to SME companies to help them recover from the impact of COVID19, our view is that, while managing fiscal risk is important and has factored into the design of the scheme, the terms of the loan should be focussed primarily on maximising uptake by eligible SMEs.
29. Providing the SBCS loan on an unsecured basis, better supports this policy intent and the Crown avoids the potentially difficult scenario of other unsecured creditors (many of whom will be SMEs) missing out on payment due to the Crown's priority. Note, that if the IRD's SBCS loan is unsecured and ranks pari-passu with other unsecured creditors, it is likely that the IRD will recover little to any of the SBCS loan in the case of receivership, which will increase the fiscal cost of the scheme as repayments (including recoveries) will be less. If Joint Ministers wish to put a higher weighting on managing fiscal risk, then a higher ranking could be sought.

### **Default Interest Rate**

30. Depending on whether the SBCS loan is unsecured or benefits from any preferential creditor status, consideration needs to be given to how the Default interest rate would sit vis-à-vis other debts (including other IRD debt which has a preferred creditor status). This has to be balanced with the intention of not being penal on companies who cannot afford to make the repayments.



31. If the SBCS loan is to benefit from priority then a low default rate of around 6% may be appropriate, however, if the SBCS loan is unsecured then a default rate of circa 10% may be more appropriate. A default rate of 10% is low compared to commercial bank overdraft rates, however, is reflects the overall concessionary nature of the SBCS Loan. This may be documented at the base rate 3% plus the IRD's UOMI rate.
32. The Treasury's preferred combination of these terms for the SBCS loans to be unsecured, ranking pari-passu with other unsecured creditors, and with a default interest rate of 3% (base rate), plus the IRD's UOMI rate.

### **Fiscal costs of the scheme**

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33. On 30 April, Treasury advised that up to \$6.5 billion will be made available in lending through the SBCS.
34. This costing was based on the following assumptions:
  - 34.1 That 100% of eligible firms would take up the loan;
  - 34.2 That loan entitlements equal to \$10,000 for each firm plus \$1,800 for each FTE that the firm has applied for the wage subsidy on behalf of, up to a cap of \$100,000; and
  - 34.3 That it will be available to businesses with 50 or fewer FTE.
35. Based on these assumptions and data from the Wage Subsidy Scheme, around 400,000 firms would be taking up the loan.
36. Officials have revised their assumption around the scheme's uptake from 100% uptake to 80% uptake. This reflects that we do not expect all eligible businesses will take up the scheme, because it is debt. This remains a conservatively high estimate of uptake. The new amount we advise should be made available for lending is \$5.2 billion.
37. This decision affects the size of the lending envelope. The size of the lending envelope determines the amount of debt that needs to be written-down. The amount of debt-written down (and the administrative cost) is scheme's fiscal cost to the Crown.
38. The amount of debt to be written-down will depend on the following assumptions:
  - 38.1 The amount of firms which repay within one year;
  - 38.2 The default rate for firms that do not pay within one year;
  - 38.3 The value of the interest concession;
  - 38.4 The distribution of eligible firms (in terms of size).
39. These assumptions are officials' best estimate at this time and are highly uncertain.
40. Officials understand Joint Ministers are making decisions on what ranking this debt should have.
41. Officials have prepared two sets of fiscal implications for agreement depending on your decision on the terms of the loan in the sections above.
42. In costing the fiscal implications, we have assumed a repayment rate of 25% of loans within the first year and a non-repayment rate of 75% on the outstanding debt after year one. This reflects an overall default rate of around 50% - 60% on the total lending. We also assume weaker firm performance during the short to

medium term. The interest concession has been calculated at 12%, based on an assumed market interest rate of 15%. These assumptions have been conservatively estimated given the uncertainty.

#### *Fiscal impact of providing the loans unsecured*

43. Leaving the SBCS loans unsecured supports keeping the lending envelope at \$5.2 billion.
44. Ranking Crown debt lower than secured creditors' debt maintains the incentive for firms to apply for the loan. This is because debt owed to private lenders will rank higher than debt owed to the Crown, which decreases the risk to private lenders if their customer is also receiving a Crown loan. This means that firms will not jeopardise existing credit relationships by taking a Crown loan.
45. Given our other assumptions regarding the amount of debt that needs to be written-down, we estimate the fiscal cost to the Crown to be \$3.4 billion.

#### *Fiscal impact of providing the loans secured*

46. Securing the SBCS loans suggests decreasing assumption regarding loan uptake. However, it is nearly impossible at this stage to estimate accurately how much uptake rates would be reduced by. As a starting point, we suggest assuming 60% uptake. This decreases the estimated lending envelope to \$3.9 billion
47. Ranking Crown debt higher than other debt reduces the incentive for firms to apply for this scheme. This is because private lenders may be less willing to provide credit to customers if the Crown has a higher debt ranking, so firms may opt not to take on the scheme if it will impact their existing relationship with a private lender.
48. Given our other assumptions regarding the amount of debt that needs to be written-down (specifically, how much the Crown can recover in defaults as a higher ranked creditor), we estimate the fiscal cost to the Crown to be \$2.2 billion.

#### *Next Steps*

49. These fiscal costings are highly uncertain due to the multiple assumptions used, and are based on our current understanding of what officials expect will happen prior to the loan scheme going live. These will be subject to further refinement as more data becomes available.
50. Officials have included in the Cabinet paper attached to this report a recommendation to delegate to the Minister of Finance and the Minister of Revenue authority to increase the relevant appropriations to account for higher than predicted uptake of the scheme to avoid breaching appropriations.
51. The fiscal implications of the SBCS will be incorporated into the COVID-19 Response and Recovery Fund Cabinet paper that is going to Cabinet on 11 May. The appropriated amounts will be published as part of the wash-up supplementary estimates.
52. The next opportunity to revise the forecasted fiscal cost will be at the Pre-election Economic and Fiscal Update (PREFU) in July. These forecasts will be continually revised at each economic and fiscal update. The Treasury intends to seek a quality assurance review of the fiscal model before PREFU.

#### **Inland Revenue's Administration Costs**

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53. IR has estimated that it will cost approximately \$0.250 million to build the system to deliver the Scheme (which can be absorbed within baselines), and up to \$9.940 million to develop a system for repayments and debt collection/management, and

to fund the relevant capital charge and depreciation costs. As approved by Cabinet, this \$9.940 million will be held in a tagged contingency, to be drawn down should IR be unable to meet the second round of build costs from its baselines.

54. IR has estimated that it will cost approximately \$26.500 million to administer the Scheme. These costs are largely associated with people for processing, providing information and advice to customers during the term of the loan, and then collecting the debt. The costs also allow for reforecasting the value of the loan book as a whole, as this is required by accounting standards.
55. IR prepared cost estimates based on a previous iteration of the loan scheme. It has re-examined these estimates in light of the final form of the Scheme approved by Cabinet and confirms that changes in the scheme have had no material impact on its estimated administrative costs.

## **Other Policy matters**

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### ***The upper limit for number of employees***

56. Within the Cabinet paper *Introducing a Small Business Cashflow (Loan) Scheme*, the Scheme is described as supporting businesses with 50 or fewer full time equivalent employees.
57. However, Rec 2 of the Cabinet minute (CAB-20-MIN-0196) refers to the Scheme being available for businesses with businesses with up to 50 full-time employee equivalents.
58. The parameters of the scheme: \$10,000 per applicant; \$1,800 per FTE employee; and cap of \$100,000, accommodates a business with 50 FTE employees. Inland Revenue has designed the Scheme so that a business with exactly 50 full time employee would be eligible.
59. We seek Ministers' agreement to this approach.

## **Legislative amendments**

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60. We seek Ministers' agreement to include further legislative amendments to support the Scheme. Subject to Cabinet approval on 11 May 2020, these would be included in an SOP to the COVID-19 Response (Further Management Measures) Legislation Bill at the Committee of the Whole stage scheduled on 12 May.
61. We recommend the following changes and additions to the enabling legislation in the Tax Administration Act 1994:
  - 61.1 Amendments to permit Inland Revenue to use existing care and management, and debt management provisions to administer the Scheme. Note approval for this amendment has been separately sought (T2020/1362, IR2020/245 refers).
  - 61.2 Amendments to the Scheme's information sharing provisions are proposed to ensure they allow Inland Revenue to obtain the necessary information from the Ministry of Social Development to administer the Scheme.
62. A number of amendments to the Income Tax Act 2007 relating to the Scheme are also recommended. The proposed amendments:
  - 62.1 Ensure interest payable under a loan is not subject to resident withholding tax.

- 62.2 Ensure that loan amounts are not counted as income for Working for Families.
- 62.3 Repeal the provision which ensures the conversion of a portion of the loan to a grant does not have adverse income tax implications. There is no remission element in the final design of the Scheme to which this provision would apply.

### **Next steps**

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63. We have prepared a Draft Cabinet paper which is attached at Appendix 1. This paper has two purposes:
- It seeks Cabinet's approval to introduce further legislation to support the Scheme. This legislation gives effects to decisions that Cabinet or you, under delegated authority, have already taken with respect to the Scheme.
  - It summarises the decisions you have taken so as to provide Cabinet with the final design and costs of the Scheme.
64. We propose that this Cabinet paper is lodged for consideration by Cabinet on 11 May, so that the legislative amendments can be included in an SOP to the COVID-19 Response (Further Management Measures) Legislation Bill at the Committee of the Whole stage scheduled on 12 May.





## **Joint Report: Small business loan scheme – detailed design decisions**

<b>Date:</b>	Thursday 7 May, 2020	<b>Report No:</b>	T2020/1362 IR2020/245
		<b>File Number:</b>	LA-7-53-9

### **Action Sought**

	<b>Action Sought</b>	<b>Deadline</b>
Minister of Finance (Hon Grant Robertson)	<b>Agree</b> to the recommendations in this report	Friday 8 May, 2020
Minister of Revenue (Hon Stuart Nash)	<b>Agree</b> to the recommendations in this report	Friday 8 May, 2020

### **Contact for Telephone Discussion (if required)**

<b>Name</b>	<b>Position</b>	<b>Telephone</b>	<b>1st Contact</b>
James Beard	Acting Deputy Secretary, The Treasury	[39]	[23] ✓
Emma Grigg	Policy Director, Inland Revenue	[39]	[23]

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

Return the signed report to Treasury.

Note any feedback on the quality of the report

**Enclosure:** No

# **Joint Report: Small business loan scheme – detailed design decisions**

## **Executive Summary**

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On 30 April 2020, Cabinet agreed to establish the Small Business (Cashflow) Loan Scheme (the loan scheme). Cabinet authorised Joint Ministers to make minor policy and operational decisions related to the loan scheme, consistent with the policy in the Cabinet paper (CAB-20-MIN-0196 refers).

### **Detailed design issues**

Officials have identified a range of detailed design issues that require decisions from Joint Ministers. These decisions are needed in order to finalise the online application system, the legal documentation for the loans, and the communication materials before the scheme goes live on Tuesday 12 May.

This report seeks decisions in respect of the borrowing terms for the loans, Inland Revenue's administrative powers, integrity considerations, and eligibility requirements. A separate report (T2020/1402, IR2020/243 refers) seeks decisions in respect of the ranking of the debt and the default interest rate, and provides an estimate of the fiscal impact of the loan scheme.

### ***Borrowing terms***

It is necessary to decide the definition of a default in respect of the loan. <sup>[36]</sup>

They are set out in the body of this report and in the draft summary terms sheet in Appendix 1.

In order to reflect the particular nature of these loans, officials recommend that default also be deemed to occur in respect of the following events:

- a Making a false declaration either for the loan application or the wage subsidy scheme;
- b Ceasing to carry on the business for which the loan was provided;
- c Failure to comply with any obligations under the wage subsidy scheme.

[36]

### ***Inland Revenue's administrative powers***

Officials recommend that Inland Revenue's powers in relation to debt management and care and management should apply to the loan scheme.

### ***Integrity considerations***

There is a risk that, in some cases, larger businesses may apply for and receive a loan. In light of this risk, IR will screen for businesses with more than 50 employees. There will be a manual work around for cases in which the screening catches businesses that should be eligible because of the part time composition of their staff.



## **Eligibility requirements**

Officials recommend that the loan scheme broadly apply the same criteria as the wage subsidy scheme, with one main exception: to allow for the possibility of overseas travel by individuals during the term of the loan. Some minor changes are also required to ensure that charities and not-for-profit entities (and potentially pre-revenue businesses, such as start-ups) are eligible to apply for loans from the scheme.

## **Communications**

There is growing demand from the business community for the Government to provide guidance on the terms of the loan scheme. In response to this demand, officials have drafted guidance and information for the Inland Revenue website. Appendix 2 provides the draft website content for your reference.

Inland Revenue intends to publish this content – along with the loan contract, the online application, and the terms sheet – on its website on Friday 8 May. Inland Revenue also intends to discuss the operation of the scheme with interested stakeholders shortly thereafter. This will allow applicants time to consider the loan terms and take advice if needed before the scheme goes live on Tuesday 12 May.

## **Risks and risk management**

This report has been prepared under significant time pressure because of the need to finalise the details of the scheme before it goes live on Tuesday 12 May. This time pressure has created a risk of errors and oversights.

The Legal teams of Inland Revenue and the Treasury will review the terms sheet, the online application, and the website content before finalisation to ensure internal consistency and legal accuracy.

Officials will also monitor the implementation of the scheme with a view to identifying any errors, oversights or unintended outcomes. Officials will report back to Joint Ministers if any further changes to the design of the scheme are required.

## **Recommended Action**

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We recommend that you:

- a **note** that on 30 April 2020, Cabinet [CAB-20-MIN-0196 refers]:
  - i **invited** the Minister of Finance and the Minister of Revenue to report back to Cabinet on the final design of the Small Business Cashflow Scheme COVID-19, fiscal implications to the Crown and the charge against the COVID-19 Response and Recovery Fund; and
  - ii **authorised** the Minister of Finance and the Minister of Revenue to make minor policy and operational decisions related to the loan scheme, consistent with the policy in that Cabinet paper;
- b **note** that officials have identified a need for the Minister of Finance and Minister of Revenue to make further decisions in respect of four main issues:
  - i borrowing terms;
  - ii Inland Revenue's administrative powers;

- iii integrity considerations; and
- iv eligibility requirements;

### **Borrowing terms**

- c **agree** that default will occur in respect of the events detailed in the attached draft terms, including, in particular:
  - i making a false declaration either for the loan application or the wage subsidy scheme; or
  - ii ceasing to carry on the business for which the loan was provided; or
  - iii failure to comply with any obligations that they have agreed to under the Wage Subsidy Scheme.

*Agree/disagree*

*Agree/disagree*

### **Inland Revenue's administrative powers**

- d **agree** that Inland Revenue's powers in relation to care and management and debt management will apply to the loan scheme;

*Agree/disagree*

*Agree/disagree*

- e **note** that legislative amendments will be necessary in order to give effect to this decision

### **Integrity considerations**

- f **note** that Inland Revenue will screen applications for businesses with more than 50 employees;

### **Eligibility requirements**

- g **agree** that the loans will only be available to entities that are:
  - i. registered in New Zealand;
  - ii. physically located in New Zealand; and
  - iii. employing individuals who are working legally in New Zealand (in line with the eligibility criteria for the wage subsidy scheme);

*Agree/disagree*

*Agree/disagree*

- h **agree** that the loans will only be available to persons that are:
  - i. physically located in New Zealand (allowing for temporary absences of six weeks or less); and
  - ii. employing individuals who are working legally in New Zealand (in line with the eligibility criteria for the wage subsidy scheme);

*Agree/disagree*

*Agree/disagree*

i **agree** that charities and not-for-profit entities will be eligible to apply for the loan scheme;

*Agree/disagree*

*Agree/disagree*

j **agree** that pre-revenue firms will be eligible to apply for the loan scheme;

*Agree/disagree*

*Agree/disagree*

k **note** that pre-revenue firms will need to meet the same viability test as other businesses;

l [33]

### **Communications**

m **note** that Inland Revenue intends to publish the loan contract, the online application, the terms sheet, and associated guidance and information on its website on Friday 8 May;

n **note** that officials will discuss the operation of the scheme with interested stakeholders shortly after the publication of this material on its website on Friday 8 May.

[39]

James Beard  
**Acting Deputy Secretary  
The Treasury**

Emma Grigg  
**Policy Director  
Inland Revenue**

Hon Grant Robertson  
**Minister of Finance**

Hon Stuart Nash  
**Minister of Revenue**

# **Joint Report: Small business loan scheme – detailed design decisions**

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## **Purpose of Report**

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1. On 30 April 2020, Cabinet agreed to establish the Small Business (Cashflow) Loan Scheme (the loan scheme). Cabinet authorised Joint Ministers to make minor policy and operational decisions related to the loan scheme, consistent with the policy in the Cabinet paper (CAB-20-MIN-0196 refers).
2. Officials have identified a range of detailed design issues that require decisions from Joint Ministers. These decisions are needed in order to finalise the online application system, the legal documentation for the loans, and the communication materials before the scheme goes live on Tuesday 12 May.
3. This report seeks decisions in respect of the borrowing terms for the loans, Inland Revenue's administrative powers, integrity considerations, and eligibility requirements. A separate report (T2020/1402, IR2020/243 refers) seeks decisions in respect of the ranking of the debt and the default interest rate, and provides an estimate of the fiscal impact of the loan scheme.

## **Design decisions**

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### **Borrowing terms and enforcement**

#### ***The definition of 'default'***

4. It is necessary to decide the definition of a default in respect of the loan. Under the contract, an event of default provides the Commissioner of Inland Revenue with the discretion to declare any outstanding amount immediately payable and to charge interest at the default rate.
5. [36]
  
6. In order to reflect the particular nature of these loans, officials also recommend that default be deemed to occur in respect of the following events:
  - a making a false declaration either for the loan application or the wage subsidy scheme;
  - b ceasing to carry on the business for which the loan was provided;

- c failure to comply with any obligations that they have agreed to under the wage subsidy scheme.

7. [36]

### **Inland Revenue's administrative powers**

8. The existing legislation already provides for the use of Inland Revenue's information-gathering powers to support its administration of the scheme (including enforcement action).
9. Officials recommend further legislative amendment to provide for alignment with Inland Revenue's existing debt management provisions in the Tax Administration Act 1994. This would simplify the administration of the scheme and align the consideration of defaulting applicants with any concurrent defaults on their tax liabilities. Alignment with Inland Revenue's recovery provisions would also permit the use of deduction notices, which often provide the most efficient means of recovering outstanding amounts.
10. Officials also recommend legislative amendment to ensure that Inland Revenue's care and management provisions apply to the scheme. Such provisions would support administration and collection activities.

### **Integrity measures**

11. Cabinet has agreed that the loan scheme will be limited to businesses with 50 or fewer full-time equivalent employees (FTEs), with FTEs measured in accord with the wage subsidy criteria.
12. By using the wage subsidy data, which has already been validated by Inland Revenue, there will be relatively high integrity around the employee numbers. However, even with this data, there is a risk that some larger businesses may apply for and receive a loan. This will be in the minority of cases where a larger business has applied for the wage subsidy for a subset of its employees. Larger businesses that have received the wage subsidy for all of their employees, and larger businesses that have not applied for the wage subsidy, will not be able to take advantage of this loophole.
13. In light of this risk, IR will screen for businesses with more than 50 employees. There will be a manual work around for cases in which the screening catches businesses that would be eligible because of the part time composition of their staff.
14. More broadly, issues of integrity risk will also be addressed in other aspects of the scheme design – including the use of MyIR and existing accounts, the ability for Inland Revenue to share information with the Ministry of Social Development, and the use of ex post audits.

### **Publication of recipient names**

15. Officials recommend against the publication of recipient names. The publication of recipient names would impose a substantial administrative burden on Inland Revenue at a time when the department is already facing significant demands on its administrative capacity. Furthermore, officials note that the Office of the Privacy Commissioner has recommended against the publication of the names of individuals. This would affect the release of information relating to sole traders.
16. Inland Revenue officials are also of the view that the publication of recipient names would be inappropriate in light of the largely commercial circumstances applying to this loan (as opposed to the concessionary arrangements of a grant such as the wage subsidy).

## **Eligibility requirements**

### ***Residency status***

17. We recommend that the loan scheme broadly apply the same criteria as the wage subsidy scheme, with one main exception: to allow for the possibility of overseas travel by sole traders during the term of the loan. This means that eligibility for the loan scheme would be limited to businesses that are:
  - a Registered in New Zealand;
  - b Physically located in New Zealand (with the exception that sole traders may be temporarily absent from New Zealand for a period of six weeks or less); and
  - c Employing individuals who are working legally in New Zealand.

### ***Organisational types***

18. Cabinet has agreed that organisational types should be treated consistently in respect of both the loan scheme and the wage subsidy scheme. Officials have identified two broad types of organisations for which minor changes will be necessary to give effect to this policy objective.

#### *Charities and not-for-profit entities*

19. In line with Cabinet's decision, charities and not-for-profit entities should be eligible for the loan scheme so long as they meet the other eligibility criteria for the loan scheme.
20. One particular 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 scheme should be acting in a manner that is consistent with the ongoing operation of the entity.

#### *Pre-revenue firms*

21. Pre-revenue firms, such as start-ups, are also eligible for the wage subsidy scheme. They do not need to demonstrate a 30% 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. These conditions will carry across into the loan scheme.
22. As with charities and not-for-profit entities, pre-revenue firms may struggle to meet the 'viable, ongoing business' test. [33]

### ***The treatment of minors***

23. Minors are currently eligible for the wage subsidy scheme. [36]  
it is necessary to exclude minors from the loan scheme.

## **Communications**

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24. There is growing demand from the business community for the Government to provide guidance on the terms of the loan scheme. In response to this demand, officials have drafted guidance and information on the loan scheme for the Inland Revenue website.

25. This content covers the following matters:
  - a The eligibility requirements for the loan;
  - b The maximum loan size available to eligible businesses (including the method used to calculate the maximum loan size);
  - c The application process for the loan scheme (including the information necessary to apply for a loan);
  - d The arrangements for receiving the loan; and
  - e The arrangements for repaying the loan (including the method for calculating interest on the loan).
26. Appendix 2 provides the draft website content for your reference.
27. Inland Revenue intends to publish this content – along with the loan contract, the online application and the terms sheet – on its website on Friday 8 May. Inland Revenue also intends to discuss the operation of the scheme with interested stakeholders shortly thereafter. This will allow applicants time to consider the loan terms and take advice if needed before the scheme goes live on Tuesday 12 May.

## Risks and risk management

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28. This report has been prepared under significant time pressure because of the need to finalise the details of the scheme before it goes live on Tuesday 12 May. This time pressure has created a risk of errors and oversights.
29. The Legal teams of Inland Revenue and the Treasury will review the terms sheet, the online application, and the website content before finalisation to ensure internal consistency and legal accuracy.
30. Officials will also monitor the implementation of the scheme with a view to identifying any errors, oversights or unintended outcomes. Officials will report back to Joint Ministers if any further changes to the design of the scheme are required.

## Appendix 1: Draft summary terms sheet

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This terms sheet provides a summary of the draft loan terms. For full information refer to the full loan terms and application.

[36]







### Title: **COVID-19 Small Business Cashflow (loan) Scheme (SBCS)**

#### Landing page intro:

Your business or organisation might be eligible for a one-off loan from the Government.

#### Page intro:

Organisations and small to medium businesses, including sole traders and the self-employed, may be eligible for a one-off loan with a term of five years if they have been adversely affected by COVID-19. Information on the loan, eligibility criteria and how to apply is outlined below.

#### Body text:

### **Providing immediate support to small businesses and organisations**

The Small Business Cashflow (loan) Scheme (SBCS) has been introduced to support businesses and organisations struggling because of loss of revenue as a result of COVID-19. They must have 50 or fewer full-time-equivalent employees.

Inland Revenue will administer the payments and repayments of this scheme. Applications will be open from 12 May 2020 to 12 June 2020.

Eligible businesses and organisations are entitled to a one-off loan. The maximum amount loaned is \$10,000 plus \$1,800 per full-time-equivalent employee.

The annual interest rate will be 3% beginning from the date of the loan being provided, however interest will not be charged if the loan is fully paid back within one year.

### **Eligibility criteria**

Businesses and organisations that have received the wage subsidy are eligible for the SBCS loan if their wage subsidy was \$351,480 or less. This equates to 50 full-time-equivalent employees.

- If a business or organisation did not include all their employees in their wage subsidy application, they are only eligible for the SBCS loan if the amount of wage subsidy they would have received if including all their employees was \$351,480 or less.

Businesses and organisations that have not received the wage subsidy can still receive the SBCS loan if they are eligible for a wage subsidy of \$351,480 or less were they to apply for all their employees. You can check if your organisation is eligible for the wage subsidy at <https://www.workandincome.govt.nz/covid-19/wage-subsidy/> or use the tool at <https://www.business.govt.nz/covid-19/wage-subsidy-eligibility-tool/>. You do not need to have received the wage subsidy to receive a loan.

Note that whereas the wage subsidy requires sole traders to be physically present in New Zealand, they can still receive the loan if they are temporarily away from New Zealand (for up to six weeks).

Commonly owned groups of companies will be treated as a single firm when applying the cap of 50 full-time-equivalent employees.

To be eligible for the SBCS loan your business or organisation needs to be viable and you must have a plan to ensure it remains viable. This generally means the Directors or owners have good reason to believe it is more likely than not the business or organisation will be

able to pay its debts as they fall due within the next 18 months. Your accountant may be able to provide this advice.

You must keep any evidence of the business or organisation's ongoing viability at the time of requesting the loan, as Inland Revenue may audit your application. This might include, for example;

- A cash-flow forecast for the business for the short term
- A plan for where revenue will come from in future market conditions, and a forecast of those revenues
- Financial statements showing the business has enough resources to sustain itself
- Your accountant's assessment that the business is viable and ongoing

### **Maximum loan size**

The maximum size of the loan depends on the number of full-time-equivalent employees calculated from wage subsidy funding. It is \$10,000 plus \$1,800 per full-time-equivalent employee.

To determine the number of full-time-equivalent employees, Inland Revenue will divide the wage subsidy amount (that you received or would receive if you applied for the wage subsidy for all your employees) by \$7,029.60 – the wage subsidy received for one full time employee – and will be rounded up to the nearest full-time-equivalent employee.

For example, a business with 8 full-time and 4 part-time employees would have received \$73,036.80 in wage subsidies. For the purposes of the maximum loan size it will be considered to have 11 full-time-equivalent employees, as \$73,036.80 divided by \$7,029.60 is 10.4 - rounded up to 11.

The maximum loan is \$100,000.

A calculator is available at <link> for businesses to determine the loan amount they may be eligible for.

Sole traders can receive a loan of up to \$11,800.

### **Applying for the SBCS loan**

Businesses and organisations will be able to apply for the SBCS loan through myIR. In the 'I want to' section of myIR, select 'Apply for a Small Business loan'. Businesses without a myIR account will need to create one to apply for the SBCS loan.

Applications will be open from 12 May 2020 to 12 June 2020.

Businesses will have the option to accept the full loan amount offered or a smaller loan. Businesses can only make one loan application and no amendments can be made after the loan has been applied for.

To apply for the SBCS loan, you will need to:

- Provide your New Zealand Business Number (NZBN) - businesses and organisations without an NZBN will need to obtain one from [www.nzbn.govt.nz](http://www.nzbn.govt.nz) before applying for the loan.
- Confirm your business or organisation is experiencing a minimum 30% decline in actual or predicted revenue over the period of any month from Jan 2020 to June 2020, when compared with the same month last year, and that decline is related to COVID-19.
  - Confirm your business or organisation was in existence prior to 1 April 2020.

- Confirm your business or organisation is viable, you have a plan to ensure it remains viable, and you are keeping evidence Inland Revenue can use to check this.
- Confirm the purpose of the loan is to provide working capital to support your business or organisation as a going concern.
- Confirm you'll use the loan to pay for core operating costs (including, but not limited to, rent, insurance, utilities, supplier payments, or rates).
- Confirm the benefit of the loan will not be passed through to the shareholders or owners of the business or organisation, for example, by a dividend or a loan to the shareholders or owners.
- Confirm you have the appropriate authority to commit your business or organisation to this loan.
- Confirm you are aware Inland Revenue is not providing financial advice regarding this loan.
- Agree to the loan agreement - which will be available on this page by 12 May.

If you haven't yet applied for the wage subsidy, you'll also need to provide your number of full-time and part-time employees.

It's important to provide accurate information during the application process. False or misleading information, or receiving any subsidy or payment that you were not entitled to receive, may be subject to an investigation including for offences under the Crimes Act 1961.

### **Receiving the loan payment**

Once approved, most applicants will receive their loan payment in full from Inland Revenue within five working days. It will be paid to the bank account shown in myIR. You can provide a new bank account.

There will be no loan adjustments for any tax debt owed and the loan is not subject to income tax or GST.

You will be able to claim deductions for expenditure funded by the loan.

### **Repaying the loan**

You will have five years (60 months) to pay off the loan and Inland Revenue's usual repayment options will be available, including setting up instalments.

Loans will be subject to an annual interest rate of 3% from the date it is provided by Inland Revenue. During the loan period, the following rules apply:

- If you repay the loan in full within one year you won't be charged any interest.
- Repayments are not compulsory in the first 24 months. Voluntary payments can still be made over this period.
- After 24 months, you will be required to make regular payments for both the principal and interest.

### **Financial advice**

For advice on whether the SBCS loan is right for you, speak to your financial advisor. Inland Revenue does not provide financial advice.



Office of the Minister of Finance

Office of the Minister of Revenue

Chair, Cabinet

## **SMALL BUSINESS CASHFLOW (LOAN) SCHEME: FURTHER LEGISLATION AND DESIGN UPDATE**

### **Proposal**

1. This paper seeks Cabinet's agreement to the introduction of a Supplementary Order Paper to the COVID-19 Response (Further Management Measures) Legislation Bill primarily containing amendments supporting the Small Business Cashflow (Loan) Scheme.
2. This paper also informs Cabinet on decisions we have made in accordance with Cabinet's delegation with regard to the Small Business Cashflow (Loan) Scheme.

### **Background**

3. On 30 April 2020, Cabinet agreed to the establishment of a Small Business Cashflow (Loan) Scheme (the Scheme). Cabinet noted the detrimental impact that COVID-19 has had on small-to-medium businesses in New Zealand and agreed to provide additional financial assistance to such businesses in the form of a loan scheme (CAB-20-MIN-0196 refers). The Minister of Finance and the Minister of Revenue were authorised to make minor policy and operational decisions consistent with the policy outlined in the prior Cabinet paper.
4. Legislation was passed on 30 April 2020 to enable the Scheme to operate and be administered by Inland Revenue. Since then, we have approved some more specific design details of the Scheme. Applications for a loan under the Scheme will be able to be made from 12 May 2020 to 12 June 2020 with an option to extend the duration of the application period.

### **Design details requiring legislation**

5. As per Cabinet's authorisation, we have made the following decisions relating to the Scheme. We judge that these are minor policy and operational decisions that are consistent with the policy in the previous Cabinet paper that established the Scheme.
6. The following proposals will be legislated via a Supplementary Order Paper (SOP) to the COVID-19 Response (Further Management Measures) Legislation Bill at the Committee of the whole House stage scheduled for 12 May 2020. The SOP will amend the Tax Administration Act 1994 and the Income Tax Act 2007.

### *Inland Revenue's administrative powers*

7. We have agreed that Inland Revenue's administrative powers in relation to debt management, and care and management, will apply to the Scheme.

### *Information sharing*

8. To ensure that the scheme runs effectively, Inland Revenue needs to be able to receive information from the Ministry of Social Development. Recently enacted amendments to the Tax Administration Act 1994 allow the Ministry of Social Development to share Wage Subsidy Scheme information with Inland Revenue.
9. However, we consider that further amendments are necessary to widen the scope of the information sharing provisions to enable Inland Revenue to administer the Scheme.

### *Resident withholding tax exemption*

10. We have agreed that the interest payable under a loan will not be subject to resident withholding tax. This ensures that borrowers do not have to withhold tax on interest they pay under the Scheme.

### *Loan amounts not income for Working for Families*

11. We have agreed that any loan amounts paid to recipients under the Scheme will not be included as income for Working for Families purposes. This will ensure that people operating their business as a sole trader, look-through company, or partnership do not have a reduction in their Working for Families because they receive a loan under this Scheme.

### **Design details not requiring legislation**

12. As per Cabinet's authorisation, we have made the following decisions relating to the Scheme that are consistent with the policy in the previous Cabinet paper that established the Scheme. The following do not require legislation.

### *Evidence of ongoing viability*

13. Cabinet has agreed that one of the declarations that a business has to make when applying for a loan under the Scheme is that they a "viable, ongoing business" and that "evidence is provided of their on-going viability".
14. We have decided that the principal check of viability that Inland Revenue will undertake is whether the business has gone into liquidation. In addition, businesses will have to declare that they are viable, that they have a plan to ensure they remain viable, and that they will hold information on file to verify this for audit purposes.
15. Inland Revenue will check that these declarations, and others, have been made in an application by a business under the Scheme (and will reject applications where these declarations have not been made).



### *Audit requirements*

16. Cabinet has agreed that Inland Revenue will audit applications using verification mechanisms that are under development. This includes introducing legislative changes that allow for such audits.
17. Inland Revenue will require loan recipients to hold information that supports the declarations they made in their application so that the relevant documentation can be produced if that recipient is audited. Examples of such documentation that could be held include:
  - 17.1 Records of how the loan money is spent;
  - 17.2 A statement from a third party around financial health or reasonableness of cashflow projections; and
  - 17.3 Resolutions of the company directors that demonstrate reasonable expectations of ongoing viability.
18. Holding specific items will not be mandatory. For instance, a sole trader would not have a company resolution. However, Inland Revenue's direction about the information that loan recipients should hold will provide applicants with guidance as to what is expected of them, both at the point of application and in their subsequent use of the loan. This approach to audit will strengthen the specific requirements imposed on the Scheme's applicants with respect to providing evidence of ongoing viability.

### *Eligibility requirements*

19. We have agreed that the Scheme should have the same eligibility criteria as that used for the Wage Subsidy Scheme. Broadly, this limits the scheme to businesses that are registered in New Zealand, physically located in New Zealand, and employing individuals who are working legally in New Zealand.
20. However, we have decided that one exception to the alignment of the criteria between the two schemes is that, under the loan Scheme, overseas travel by individuals will be permitted throughout the term of the loan.
21. We have also agreed that different organisational types should be treated consistently in respect of the loan Scheme and the Wage Subsidy Scheme. Specifically:
  - 21.1 Charities and not-for-profit entities will be eligible for the Scheme so long as they meet all other requirements and can confirm that they are a "viable, ongoing organisation"; and
  - 21.2 Pre-revenue businesses will be eligible for the Scheme so long as they meet all other requirements, including the Wage Subsidy Scheme condition that their capital-raising activity has been affected by COVID-19. Note that further changes may be needed for the Scheme's viability test for pre-revenue businesses if the general test prevents these businesses from accessing the Scheme.

22. We have also agreed that minors will not be eligible for the Scheme even though it has been possible for them to access the Wage Subsidy Scheme.

*Borrowing terms and enforcement*

23. We have decided that:

23.1 Debt issued under the Scheme will be unsecured and non-preferential;

23.2 A default rate of interest may be charged from the point in time that a default event occurs, and this rate is to be set at the use of money interest rate on underpayments of tax plus three percentage points; and

23.3 Default shall be defined to include terms commonly used in loan agreements but will also be deemed to occur when a recipient:

23.3.1 Makes a false declaration for either the loan Scheme or the Wage Subsidy Scheme;

23.3.2 Ceases to carry on the business for which the loan was provided; or

23.3.3 Fails to comply with any obligations under the Wage Subsidy Scheme.

24. A default that results from a false declaration will trigger an immediate obligation to repay the loan, while other types of default will provide the Commissioner of Inland Revenue with the option to declare the outstanding amount repayable and/or to charge interest/default interest.

*Integrity considerations*

25. There is a risk that, in some cases, larger businesses (more than 50 employees) may make an application under the Scheme and receive a loan. Due to the alignment of the loan Scheme with the Wage Subsidy Scheme, this could occur when a larger business has applied for the Wage Subsidy Scheme for a subset of its employees of less than 50.

26. To counter this, we have decided that Inland Revenue will screen for applicants with more than 50 employees. There will be a manual workaround for those applicants that are caught by this screening but that are still eligible for the Scheme because of their mixture of full-time and part-time staff.

*Publication of names of loan recipients*

27. The previous Cabinet paper establishing the Scheme raised the possibility of publishing the names of loan recipients, as has been done for the Wage Subsidy Scheme.

28. We have decided that, unlike the Wage Subsidy Scheme, the names of loan recipients under the loan Scheme will not be published.

29. Following discussions with the Office of the Privacy Commissioner, we have judged that the benefits of name publication are not warranted by the size of the loan each

recipient will receive. Compared to the concession afforded to small-to-medium businesses under the Wage Subsidy Scheme, the cashflow benefit under the loan Scheme is lower and the loan arrangement is on relatively commercial terms compared to the Wage Subsidy Scheme. Consequently, the case for name publication is much weaker.

#### *Changes to appropriations*

30. The Minister of Finance and the Minister of Revenue were also delegated authority to make changes to appropriations pending further work on the costs of the Scheme. These changes are outlined in the Financial Implications section below.

#### **Amendments to loss carry-back rules**

31. The proposed SOP to the COVID-19 Response (Further Management Measures) Legislation Bill also contains amendments to the recently enacted tax loss carry-back rules. These changes are all minor technical amendments to ensure the regime works as intended.
32. The Minister of Revenue has agreed to these amendments.

#### **Financial Implications**

33. As previously agreed by Cabinet, the Minister of Finance and the Minister of Revenue have been delegated authority to make changes to appropriations relating to the Scheme. Specifically, authority was delegated to:
  - 33.1 The Minister of Finance and the Minister of Revenue to increase the Initial Fair Value Write-Down Relating to Small Business Cashflow Scheme COVID-19 appropriation once costings for the write-down are confirmed; and
  - 33.2 The Minister of Finance to make changes to appropriations to give effect to the policy decisions establishing the Scheme once the costs of the policy have been finalised.
34. The value of the loans must be impaired immediately when they are made with the expense impacting on OBEGAL. An appropriation is required for that expense, as well as for the loans being issued and additional administration expenses.

#### *Fiscal costs of the Scheme*

35. This paper and the costings in relation to the Scheme have been prepared under significant time pressure because of the need to finalise the details of the Scheme before it goes live on Tuesday 12 May. This time pressure has created a risk that there will be errors and oversights.
36. Officials will also monitor the implementation of the Scheme with a view to identifying any errors, oversights, or unintended outcomes. Officials will report back to Joint Ministers if any further changes to the design of the Scheme are required.
37. Officials estimate the fiscal costs of the scheme to be the following:

- 37.1 The total amount of lending to be appropriated is \$5.2 billion, based on a lower uptake assumption than initial estimates; and
- 37.2 The fair value write-down of the loans is \$3.4 billion, based on a lower uptake assumption than initial estimates.
38. Officials have revised their assumption around the scheme's uptake from 100% uptake to 80% uptake. This reflects that we do not expect all eligible businesses will take up the scheme because it is debt. This remains a conservatively high estimate of uptake.
39. The amount of debt estimated to be written down also depends on the following assumptions:
- 39.1 The number of firms that repay within one year;
- 39.2 The default rate for firms that do not pay within one year;
- 39.3 The value of the interest concession; and
- 39.4 The distribution of eligible firms (in terms of size).
40. In costing the fiscal implications, officials have assumed a repayment rate of 25% of loans within the first year and a non-repayment rate of 75% on the outstanding debt after year one. This reflects an overall default rate of around 50% - 60% on the total lending. We also assume weaker firm performance during the short to medium term. The interest concession has been calculated at 12%, based on an assumed market interest rate of 15%. These assumptions have been conservatively estimated given the uncertainty.
41. Because of the uncertainty around the uptake assumptions, we propose to delegate to the Minister of Finance and the Minister of Revenue authority to increase the capital appropriation and fair value write-down if the demand for this loan is higher than originally estimated.
42. These fiscal costings are highly uncertain due to the lack of information and multiple assumptions used, and they are based on our current understanding of what officials expect will happen prior to the Scheme going live. These costings will be subject to further refinement as more data becomes available.
43. The next opportunity to revise the forecasted fiscal cost will be at the Pre-election Economic and Fiscal Update (PREFU) in July. These forecasts will be continually revised at each Economic and Fiscal Update.
44. The Treasury intends to seek a quality assurance review of the fiscal model before the next Economic and Fiscal Update.

#### *Inland Revenue's administration costs*

45. Inland Revenue has estimated that it will cost approximately \$250,000 to build the system to deliver loan payments under the Scheme. This can be absorbed within baselines.

46. It will cost up to \$9.940 million to develop a system for repayments and debt collection/management. This amount will be held in a tagged contingency to be drawn down should Inland Revenue be unable to meet the second round of build costs from its baselines. This has already been agreed to by Cabinet.
47. Inland Revenue has estimated that it will cost approximately \$26.500 million over nine years to administer the Scheme. These costs are largely associated with people for processing, providing information and advice to customers during the term of the loan, and then collecting the debt. The costs also allow for reforecasting the value of the loan book as a whole, as this is required by accounting standards.

### **Legislative implications**

48. Implementing the proposals earlier described as needing legislation will require changes to the Income Tax Act 2007 and the Tax Administration Act 1994.
49. We propose that these amendments be included in a Supplementary Order Paper to the COVID-19 Response (Further Management Measures) Legislation Bill at the Committee of the whole House stage scheduled on 12 May 2020.

### **Impact Analysis**

50. The Treasury has determined that this proposal is a direct COVID-19 response and has suspended the RIA requirements in accordance with Cabinet decision (CAB-20-MIN-0138).

### **Consultation**

51. The Treasury and Inland Revenue have consulted with the Ministry of Social Development (on the information sharing provisions). The Department of Prime Minister and Cabinet has been informed.

### **Publicity**

52. We will arrange for the decisions contained in this paper to be communicated to the wider public.
53. Officials have drafted guidance and information on the Scheme to be published on Inland Revenue's website.

### **Proactive Release**

54. This paper will be included in a future proactive release of documents associated with COVID-19.

### **Recommendations**

The Minister of Finance recommends that Cabinet:

1. **note** that, on 30 April 2020, Cabinet authorised the Minister of Finance and the Minister of Revenue to make minor policy and operational decisions on the Small Business Cashflow (Loan) Scheme (CAB-20-MIN-0196 refers);

2. **note** that the following decisions have been made by the Minister of Finance and the Minister of Revenue on the design of the Scheme and that these decisions require legislation to give effect to them:

- 2.1 Inland Revenue's powers in relation to debt management, and care and management, will apply to the Scheme;
- 2.2 The information sharing provisions will be changed to ensure that they are wide enough for Inland Revenue to administer the Scheme;
- 2.3 Interest payable under the Scheme will not be subject to resident withholding tax;
- 2.4 Loan amounts will not be included in the definition of income for Working for Families;

3. **note** that the following decisions have been made by the Minister of Finance and the Minister of Revenue on the design of the Scheme and that these decisions do not require legislation:

- 3.1 Inland Revenue will assess ongoing viability by checking whether or not a business has gone into liquidation;
- 3.2 Businesses will have to declare that they are viable, that they have a plan to ensure they remain viable, and that they will hold information on file to verify this for audit purposes;
- 3.3 Inland Revenue will check that relevant declarations have been made by an applicant to the Scheme and reject applications where those declarations have not been made;
- 3.4 Inland Revenue will require loan recipients under the Scheme to hold documents that support the declarations made in their application for audit purposes;
- 3.5 The loans will only be made available to entities that are:
  - 3.5.1 Registered in New Zealand;
  - 3.5.2 Physically located in New Zealand; and
  - 3.5.3 Employing individuals who are working legally in New Zealand;
- 3.6 The loans will only be made available to persons that are:
  - 3.6.1 Physically located in New Zealand (allowing for temporary absences); and
  - 3.6.2 Employing individuals who are working legally in New Zealand;
- 3.7 Charities and not-for-profit entities will be eligible to apply for a loan under the Scheme;

- 3.8 Pre-revenue businesses will be eligible to apply for a loan under the Scheme;
- 3.9 Minors will not be eligible to apply for a loan under the Scheme;
- 3.10 Debt issued under the Scheme will be unsecured and non-preferential;
- 3.11 A default rate of interest will be set at the use of money interest rate on underpayments of tax plus three percentage points;
- 3.12 Default events are defined to include when a recipient:
- 3.12.1 Makes a false declaration for either the loan Scheme or the Wage Subsidy Scheme;
  - 3.12.2 Ceases to carry on the business for which the loan was provided; and
  - 3.12.3 Fails to comply with any obligations under the Wage Subsidy Scheme;
- 3.13 Inland Revenue will screen for businesses with more than 50 employees; and
- 3.14 The names of loan recipients under the Scheme will not be published;
4. **note** that the Minister of Revenue has agreed to minor technical amendments to the loss carry-back rules and that these decisions require legislation to give effect to them;
5. **note** that, on 30 April 2020, Cabinet delegated authority to the Minister of Finance and the Minister of Revenue to make changes to the relevant appropriations once the costs of the Small Business Cashflow (Loan) Scheme have been finalised (CAB-20-MIN-0196 refers);
6. **note** the following revised fiscal implications of the Scheme:
- 6.1 The total amount of lending to be appropriated is \$5.2 billion, based on a lower uptake assumption than initial estimates;
  - 6.2 The fair value write-down of the loans is \$3.4 billion, based on assumptions on the number of firms that repay within one year, the default rate of firms that do not pay within one year; the value of the interest concession and the distribution of eligible firms;
7. **note** that these fiscal implications are officials' best estimates at the time and are highly uncertain;
8. **delegate** authority to the Minister of Finance and the Minister of Revenue to increase the capital and fair value write-down appropriations should the uptake of the scheme be higher than originally anticipated, and invite the Ministers to report back to Cabinet if this is necessary;
9. **note** the next opportunity to revise the forecasted fiscal cost will be at the Pre-election Economic and Fiscal Update (PREFU) in July;

10. **note** that these forecasts will be continually revised at each economic and fiscal update;
11. **note** the Scheme's impact on Inland Revenue's administration costs:
  - 11.1 The cost to build the system to deliver the loan payments is estimated to be \$250,000 and can be absorbed within baselines;
  - 11.2 Developing a system for repayments and debt collection/management is estimated to cost up to \$9.940 million, and this will be held in a tagged contingency to be drawn down should Inland Revenue be unable to meet the second round of build costs from its baselines;
  - 11.3 Inland Revenue has estimated that it will cost approximately \$26.5 million over nine years to administer the scheme;
12. **agree** to the introduction of a Supplementary Order Paper to the COVID-19 Response (Further Management Measures) Legislation Bill containing the amendments referred to in recommendations 2 and 4;
13. **note** that this Cabinet paper, the associated Cabinet minute, and key advice papers will be released as part of a proactive release of documents associated with COVID-19.

Authorised for lodgement

Hon Grant Robertson

Minister of Finance



# The Treasury

## Small Business Cashflow (Loan) Scheme: Further Legislation and Other Decisions Information Release

June 2020

This document has been prepared for release by the Treasury:

<https://uniteforrecovery.govt.nz/updates-and-resources/legislation-and-key-documents/proactive-release/>

### Cabinet Document Details

Title: **CAB-20-MIN-0217: Small Business Cashflow (Loan) Scheme: Further Legislation and Other Decisions**

Date: **11 May 2020**

Creator: Cabinet Office

**No information has been withheld**

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# Cabinet

## Minute of Decision

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### Small Business Cashflow (Loan) Scheme: Further Legislation and Other Decisions

**Portfolios**                      **Finance / Revenue**

On 11 May 2020, Cabinet:

#### Background

1        **noted** that on 30 April 2020, Cabinet:

- 1.1      agreed to introduce a loan scheme to assist small-to-medium businesses impacted by COVID-19 (the Small Business Cashflow (Loan) Scheme);
- 1.2      authorised the Minister of Finance and the Minister of Revenue to make minor policy and operational decisions on the Scheme;
- 1.3      invited the Minister of Finance and the Minister of Revenue to report back to Cabinet on the final design of the Scheme, fiscal implications to the Crown, and the charge against the COVID-19 Response and Recovery Fund;

[CAB-20-MIN-0196]

#### Design of the Scheme

2        **noted** that the following decisions have been made by the Minister of Finance and the Minister of Revenue on the design of the Scheme, and that these decisions require legislation to give effect to them:

- 2.1      Inland Revenue's powers in relation to debt management, and care and management, will apply to the Scheme;
- 2.2      the information sharing provisions will be changed to ensure that they are wide enough for Inland Revenue to administer the Scheme;
- 2.3      interest payable under the Scheme will not be subject to resident withholding tax;
- 2.4      loan amounts will not be included in the definition of income for Working for Families;

- 3 **noted** that the following decisions have been made by the Minister of Finance and the Minister of Revenue on the design of the Scheme, and that these decisions do not require legislation:
- 3.1 Inland Revenue will assess ongoing viability by checking whether or not a business has gone into liquidation;
  - 3.2 businesses will have to declare that they are viable, that they have a plan to ensure they remain viable, and that they will hold information on file to verify this for audit purposes;
  - 3.3 Inland Revenue will check that relevant declarations have been made by an applicant to the Scheme and reject applications where those declarations have not been made;
  - 3.4 Inland Revenue will require loan recipients under the Scheme to hold documents that support the declarations made in their application, for audit purposes;
  - 3.5 the loans will only be made available to entities that are:
    - 3.5.1 registered in New Zealand;
    - 3.5.2 physically located in New Zealand;
    - 3.5.3 employing individuals who are working legally in New Zealand;
  - 3.6 the loans will only be made available to persons that are:
    - 3.6.1 physically located in New Zealand (allowing for temporary absences);
    - 3.6.2 employing individuals who are working legally in New Zealand;
  - 3.7 charities and not-for-profit entities will be eligible to apply for a loan under the Scheme;
  - 3.8 pre-revenue businesses will be eligible to apply for a loan under the Scheme;
  - 3.9 minors will not be eligible to apply for a loan under the Scheme;
  - 3.10 debt issued under the Scheme will be unsecured and non-preferential;
  - 3.11 a default rate of interest will be set at the use of money interest rate on underpayments of tax plus three percentage points;
  - 3.12 default events are defined to include when a recipient:
    - 3.12.1 makes a false declaration for either the loan Scheme or the Wage Subsidy Scheme;
    - 3.12.2 ceases to carry on the business for which the loan was provided;
    - 3.12.3 fails to comply with any obligations under the Wage Subsidy Scheme;
  - 3.13 Inland Revenue will screen for businesses with more than 50 employees;
  - 3.14 the names of loan recipients under the Scheme will not be published;

- 4 **noted** that the Minister of Revenue has agreed to minor technical amendments to the loss carry-back rules, and that these decisions require legislation to give effect to them;

### Financial implications

- 5 **noted** that on 30 April 2020, Cabinet authorised the Minister of Finance and the Minister of Revenue to make changes to the relevant appropriations once the costs of the Small Business Cashflow (Loan) Scheme have been finalised [CAB-20-MIN-0196];
- 6 **noted** the following revised fiscal implications of the Scheme:
- 6.1 the total amount of lending to be appropriated is \$5.2 billion, based on a lower uptake assumption than initial estimates;
  - 6.2 the fair value write-down of the loans is \$3.4 billion, based on assumptions on the number of firms that repay within one year, the default rate of firms that do not pay within one year, the value of the interest concession, and the distribution of eligible firms;
- 7 **noted** that these fiscal implications are officials' best estimates at the time and are highly uncertain;
- 8 **authorised** the Minister of Finance and the Minister of Revenue to increase the capital and fair value write-down appropriations should the uptake of the scheme be higher than originally anticipated, and **invited** the Ministers to report back to Cabinet if this is necessary;
- 9 **noted** that the next opportunity to revise the forecasted fiscal cost will be at the Pre-election Economic and Fiscal Update (PREFU) in July 2020;
- 10 **noted** that these forecasts will be continually revised at each Economic and Fiscal Update;
- 11 **noted** the Scheme's impact on Inland Revenue's administration costs, as follows:
- 11.1 the cost to build the system to deliver the loan payments is estimated to be \$250,000, and can be absorbed within baselines;
  - 11.2 developing a system for repayments and debt collection/management is estimated to cost up to \$9.940 million, and this will be held in a tagged contingency to be drawn down should Inland Revenue be unable to meet the second round of build costs from its baselines;
  - 11.3 Inland Revenue has estimated that it will cost approximately \$26.5 million over nine years to administer the Scheme;

### Legislative implications

- 12 **agreed** to the introduction of a Supplementary Order Paper to the COVID-19 Response (Further Management Measures) Legislation Bill containing the amendments referred to in paragraphs 2 and 4 above.

Michael Webster  
Secretary of the Cabinet

**Joint Report:** Extension of the Small Business Cashflow Loan Scheme

<b>Date:</b>	27 May 2020	<b>Report No:</b>	T2020/1621, IR2020/280
		<b>File Number:</b>	SH-3-0-6

**Action sought**

	<b>Action sought</b>	<b>Deadline</b>
Hon Grant Robertson <b>Minister of Finance</b>	<p><b>Agree</b> to extend the Small Business Cashflow Loan Scheme with the <b>current policy settings</b> until 24 July 2020.</p> <p><b>Note</b> that Officials will provide further advice on options for extending the Scheme, including possible policy changes, before 24 July 2020.</p>	28 May 2020
Hon Stuart Nash <b>Minister for Small Business</b>	<p><b>Agree</b> to extend the Small Business Cashflow Loan Scheme with the current policy settings until 24 July 2020.</p> <p><b>Note</b> that Officials will provide further advice on options for extending the Scheme, including possible policy changes, before 24 July 2020.</p>	28 May 2020

**Contact for telephone discussion (if required)**

<b>Name</b>	<b>Position</b>	<b>Telephone</b>		<b>1st Contact</b>
s9(2)(a)	Graduate Analyst, Tax Strategy	s9(2)(a)	s9(2)(a) (mob)	
s9(2)(a)	Analyst, Transitions Regions and Economic Development	s9(2)(a) (wk)	s9(2)(a) (mob)	
Jean Le Roux	Manager, Transitions Regions and Economic Development	s9(2)(a) (wk)	s9(2)(a) (mob)	✓
Emma Grigg	Policy Director, Inland Revenue	N/A	s9(2)(a)	

**Minister's Office actions (if required)**

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

Note any feedback on the quality of the report	
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**Enclosure:** No.

## Joint Report: Extension of the Small Business Cashflow Loan Scheme

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### Executive Summary

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The Small Business Cashflow Loan Scheme (the Scheme) was launched on 12 May 2020. The primary objective of the Scheme was to provide immediate liquidity support to small and medium businesses impacted by COVID-19 to help them pay for non-wage costs. As of 26 May 2020, the Scheme has paid out \$897 million in loans to 52,000 applicants.

Cabinet agreed to review the availability of the Scheme one week before 12 June 2020 [CAB-20-MIN-0196 refers].

Officials recommend extending the Scheme for six weeks, until 24 July 2020, and keeping the existing policy settings. Our key reasons for recommending this are:

- Businesses require further time to understand their cashflow and financing needs as they adjust to Alert Level Two and navigate economic uncertainty;
- A six week extension gives businesses time to do this, and mitigates the risks associated with extending the Scheme without modification;
- Should Ministers extend the Scheme to 24 July, officials do not recommend changing the Scheme's settings due to associated legal, policy, and reputational risks. There is also insufficient time for IRD to build the necessary system changes; and
- The Scheme is currently tracking to lend out approximately \$1.5 billion. Choosing to extend the application window has a negative fiscal implication in that less funding will be returned to the centre when the Scheme ends. This implication is unquantified at this time because officials are unable to predict how many firms will take up the scheme

We also understand that you are interested in exploring ways to increase uptake. We are therefore seeking your initial feedback on potential directions for modifying the Scheme's settings should you choose to further extend the Scheme in the future. Any changes to the Scheme beyond 24 July will need to be considered alongside other firm support initiatives.

If you agree to extend the Scheme for six weeks, Officials will help you prepare an oral item to take to Cabinet on Tuesday 2 June to seek approval from your Cabinet colleagues.

### Recommended Action

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We recommend that you:

1. **Note** that Cabinet agreed to review the availability of the Small Business Cashflow Loan Scheme one week before 12 June 2020 [CAB-20-MIN-0196 refers];

*Noted*

*Noted*

2. **Note** that officials consider that the Small Business Cashflow Loan Scheme should be extended as businesses require further time to consider their financing needs as they adjust to Alert Level 2;

*Noted*

*Noted*

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3. **Agree** to extend the Small Business Cashflow Loan Scheme with the current policy settings for six weeks, until 24 July 2020;

*Agreed/Not agreed*

*Agreed/Not agreed*

4. **Note** that if you choose to extend the Small Business Cashflow Loan Scheme, officials will provide advice before 24 July 2020, seeking your agreement on whether to extend the Small Business Cashflow Loan Scheme (and options for amending its policy settings) or wind it down;

*Noted*

*Noted*

5. **Discuss** with your officials preferred options for potential changes for the future of the Small Business Cashflow Loan Scheme;

6. **Agree** to lodge an oral item on Friday 29 May to take to Cabinet on 2 June 2020 (if you wish to extend the Small Business Cashflow Loan Scheme until 24 July 2020)

*Agreed/Not agreed*

*Agreed/Not agreed*

7. **Note** that if you lodge an oral item, officials will prepare speaking notes for you on this.

*Noted*

*Noted*

s9(2)(a)

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

s9(2)(a)

Emma Grigg  
**Policy Director**

Hon Grant Robertson  
**Minister of Finance**

Hon Stuart Nash  
**Minister of Revenue**



## Joint Report: Extension of the Small Business Cashflow Loan Scheme

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### Purpose of Report

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1. This report seeks your agreement to bring an oral item to Cabinet on Tuesday 2 June 2020, seeking Cabinet's approval for an extension of the Small Business Cashflow Loan Scheme (the Scheme) until 24 July 2020. This is because Cabinet is required to review whether to extend the Scheme's availability after 12 June 2020 [CAB-20-MIN-0196 refers].
2. We recommend extending the Scheme with its current settings and eligibility criteria. This gives distressed firms further time to consider applying, and avoids the policy, legal, operational, and reputational risks associated with changing policy settings at this stage.
3. We understand that you are interested in exploring ways to increase uptake. We are therefore seeking your initial feedback on potential options for modifying the Scheme's settings should you choose to further extend the Scheme at a later date. Included are indicative timeframes for a further report back on those options.

### Impact of the Current Scheme

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#### *Volumes and Value of Loans to Date*

4. From the launch of the Scheme on 12 May to 26 May at 9 am, Inland Revenue (IRD) has received just over 54,000 applications. As at that date, \$942 million had been requested, and IRD has paid \$897 million to 52,000 applicants. The average loan size is \$17,259 per approved application.
5. There have been 903 (1.66%) rejected applications, amounting to \$19.9 million in loans. Common reasons for declining applications include:
  - The applicant, or the commonly-owned group of which the applicant is a part, has more than 50 FTEs and does not meet the definition of small business;
  - The applicant is unable to verify the number of employees;
  - There is no evidence of business activity;
  - The business is ceased or insolvent; or
  - The business started after April 2020.

#### *General Information on Applicants*

6. The vast majority (95%) have applied for the full loan amount. Less than 1%, or approximately 90 applicants, were registered charities, with total approved loans of approximately \$2 million.
7. A high proportion of applicants (88%) have received the wage subsidy. There are several reasons why 12% of applicants may not have received the wage subsidy. For example, the wage subsidy considers whether applicants exhausted other funding

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options whereas the SBCS loans scheme does not; the wage subsidy requires public disclosure of non-individual applicants whereas the SBCS loans scheme does not

8. 81% of the total applicants have a tax agent.

*Profile of Applicants by Segment*

9. The largest number of applications (45%) have come from individuals and sole traders. The next largest group is businesses with 2-5 employees (33%). The rate of uptake declines as firm size increases. The following table summarises all applicants by volume of employees:

*Table 1: Applicants by Volume of Employees*

FTE Band	Loan Amount Issued (\$m)	Number of Businesses
1	\$286	24,547
2-5	\$273	17,790
6-10	\$157	6,714
11-20	\$126	3,530
21-30	\$53	979
31-40	\$29	401
41-50	\$19	206
<b>Totals</b>	<b>\$942</b>	<b>54,197</b>

10. The top 10 regions with the most applicants were generally proportionate to the population size, as shown in the following table:

*Table 2: Applicants by location*

Location	Loan approved (\$m)	Volume
Auckland Region	\$370	20,939
Christchurch	\$112	6,002
Wellington	\$81	4,383
Hamilton	\$61	3,291
Tauranga	\$45	2,528
Dunedin	\$42	2,189
Palmerston North	\$29	1,575
Whangarei	\$26	1,482
Nelson	\$23	1,240
Napier	\$22	1,181

11. For applicants that IRD holds industry information, the following table shows the value of loans approved and the volumes for the top 10 industries by loan value. Accommodation, construction, professional industries and retail have received the most loan proceeds to date.

*Table 3: Applicants by Industry*

<b>Industry</b>	<b>Loan approved (\$m)</b>	<b>Volume</b>
Accommodation	\$142	5,847
Construction	\$139	7,867
Retail Trade	\$89	5,012
Professional, Scientific and Technical Services	\$83	5,186
Manufacturing	\$71	3,191
Other Services	\$66	3,912
Administrative and Support Services	\$47	2,886
Transport, Postal and Warehousing	\$47	3,242
Wholesale Trade	\$40	2,113
Rental, Hiring and Real Estate Services	\$38	2,571

12. For applicants that are not individual persons, about half are more mature/long standing businesses taking up the loan. These non-individual businesses are more likely to have the durability to repay the loan. However, approximately 10% of non-individual applicants were new businesses with less than one year of business activity, as shown in the following table:

*Table 4: Applicants by age (non-individuals only)*

<b>Age</b>	<b>Volume</b>	<b>Proportion</b>
Less than 1 year	4,021	10%
1 to 5 years	12,583	31%
5 to 10 years	10,289	25%
10 to 20 years	10,430	25%
More than 20 years	3,717	9%
<b>Totals</b>	<b>41,040</b>	<b>100%</b>

*Forecast Volumes and Value of Loans*

13. The volume of applications has declined gradually and now stands at 1,800 per day. If this number is maintained through to 12 June 2020, total applications would reach 90,000 applications. This would amount to approximately \$1.5 billion in issued loans.
14. This is lower than the \$5.2 billion that has been made available for lending. Officials noted at the time that this was a conservative assumption that reflects the uncertainty of the situation and not the target amount to be lent
15. This assumed 80% of eligible firms would take up the loan. Officials noted at the time that this was a conservative assumption that reflected the situation's uncertainty and

would be subject to revision. The next opportunity for revision will be at the Pre-election Economic and Fiscal Update (PREFU) in July.

## Feedback from Businesses and Demand for the Scheme

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16. The primary objective of the Scheme is to provide immediate liquidity support to businesses impacted by COVID-19 to help meet non-wage costs. New Zealand was still at Alert Level 3 when the Scheme was considered, and many businesses, particularly smaller sized firms, were struggling with accessing credit and meeting non-wage operating costs due to restricted business activity.
17. Early feedback on the Scheme indicates that the loan provides a source of immediate support for businesses, and is helpful for managing cashflow issues. The absence of personal guarantees also makes the Scheme a comparatively attractive source of funding.
18. That the primary applicants of the loan are sole traders and firms with under five FTEs highlights that it is succeeding in its goal of assisting small firms.

### *Business Appetite to Take on Further Debt is the Key Constraint on Uptake*

19. Since the initial Cabinet decision in early May, business uncertainty about the near and medium term economic environment remains high.
20. A key factor affecting uptake is that the Scheme is a **debt product**. Business are still deciding whether to take on further debt given this economic uncertainty.
21. While making the decision to take on further debt, businesses are still adjusting to operating in Level 2. They require time to understand how the nature of their operations will change in a new regulatory and economic environment, and to determine what their cashflow needs will be during Level 2. For example, bad debts are only beginning to crystallise now.
22. Sole traders make up an overwhelming proportion of the recipients to date. More complex firms will take longer to decide whether they want to take on debt.
23. Most not-for-profits are more reluctant to take up the Scheme. Few charities have the ability to both meet their core demand and repay debt. Furthermore, donors are likely to be reluctant to donate to an organisation to assist it to repay a past loan. Charities with cashflow issues are better serviced by grants.

### *Other Reasons for Slower Uptake of the Scheme*

24. Some other feedback we have received from businesses on barriers to take up include:
  - **Interactions with other financing:** Businesses may be discouraged to take on further debt as most banks require customers to seek consent before borrowing from another lender. Feedback from Chartered Accountants Australia and New Zealand and the New Zealand Law Society suggest this is likely to be the main bank obstacle to taking loans under the Scheme.
  - **Size of loans:** feedback is that the amount made available under the Scheme is too small to make a meaningful difference for many businesses;
  - **Cost of professional advice:** Ideally all businesses should seek professional advice prior to making application. For micro businesses the cost of obtaining such advice/assistance may impact their decision to apply.



- **Impact of extended wage subsidy:** some businesses are still unsure whether they will meet the eligibility requirements for the extended wage subsidy; until they find out, they may be reluctant to apply for a loan.
25. Whenever the Scheme closes, we expect a limited bump in uptake immediately beforehand, as businesses could choose to take on this loan and preserve their options (particularly as they can pay it back at no cost within a year).
  26. The reopening of trading at Alert Level 2 has meant that some businesses will be in a better position to handle debt in a month than they were a week ago. However, feedback from stakeholders suggests that further time is needed for businesses to assess their financing needs, and an extension of the Scheme is likely needed to provide businesses more certainty and time to apply given time and information lags.

## Options for the Scheme beyond 12 June

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27. We understand you are interested in increasing the Scheme's uptake. Applications for the Scheme are currently scheduled to close on 12 June. You will need to decide whether to extend the application window beyond this.

### Options to extend the Scheme by six weeks to 24 July

28. You could decline to extend the Scheme's application window. This option caps the Scheme's cost and would return the remaining funding to the CRRF for reallocation across other Government priorities. It also limits the number of firms that would benefit from the Scheme.
29. You could extend the Scheme's application window. This option does not affect the Scheme's booked cost, and increases the number of firms that could potentially benefit.
30. Officials recommend extending the application window for several reasons:
  - a. There are still distressed SMEs. Uptake has been lower than predicted for the reasons described in previously. Extending the window would increase uptake as firms have more time to work through these issues.
  - b. Extending the Scheme in its current form gives officials time to develop options for modifying its settings to either increase uptake for the targeted firms or to reform the Scheme s9(2)(f)(iv).
31. Officials recommend a six week extension because this is the length of time we estimate it would take to work through the legal and policy implications of altering the loan's terms. It also gives Inland Revenue time to make the necessary system changes.
32. s9(2)(g)(i) [REDACTED]  
[REDACTED] Officials do not recommend a longer extension for this reason.
33. **Should you decide to extend the Scheme until 24 July, officials recommend not changing its policy settings.** Any change would introduce complexity and undermine the scheme's simplicity, and it is likely further changes will be required in the coming months as the economic situation develops. Further, any changes requiring amendments to loan contracts already entered into requires issuing a thirty days' notice

to the borrower.

### Options to explore for extending/reforming the Scheme beyond 24 July

34. Should you decide to extend the Scheme to 24 July, you will have to decide whether it should be extended beyond this date and in what form. Officials have listed several possible options:
- a. decline to extend the Scheme (return underspend to the centre);
  - b. continue under existing settings (extend with no policy changes); or
  - c. reform the Scheme to:
    - i increase uptake of the target population (policy tweaks to increase uptake by otherwise viable firms);
    - ii s9(2)(f)(iv) [REDACTED]
35. There are a range of factors that should be considered when making this decision:
- a. **Whether SMEs still need support:** the Scheme was designed to provide otherwise viable firms with loans to assist with temporary cashflow issues. It is unclear to what degree firms will still need this kind of support going forward.
  - b. **Broader macroeconomic situation:** given the evolving economic situation and the associated uncertainty, there could be a case for changing the Scheme's settings to enable broader firm support. This would need to be considered alongside other options for firm support.
  - c. **Opportunity cost:** locking Crown capital into this Scheme reduces the Crown's ability to reallocate scarce funding to higher value spending.
36. These options are indicative only at this stage. The policy and operational implications need to be worked through more fully. We would like your indicative feedback on which options are preferred and whether there are any concerns
37. Based on your feedback, officials will prepare advice on the various policy parameters that could be changed to action your preferred option.

### Risks and constraints for policy changes after 24 July

38. Any changes to the policy settings will need to factor in the following considerations:
- Any changes to the policy should also apply retrospectively to applicants who have already accessed the Scheme. This is to ensure that any changes are applied to the Scheme in an equitable manner and will not disadvantage early applicants for the Scheme. To the extent these changes require amendment of the terms of existing loans, a thirty day notice period is required. Changing the policy would also introduce complexity.
  - IRD require four weeks to make changes to their systems to operationalise any modified criteria or settings. There will be delivery risks associated with operational changes being carried out in extremely short timeframes;

#### *Timing of Any Potential Changes to the Scheme*

39. Alterations to the Scheme should be considered in light of the magnitude and timeliness of other measures which are currently providing financial support to the business sector.
40. This Scheme is the second-largest government support for businesses behind the Wage Subsidy Scheme. These two broad-based support schemes are significantly larger and quicker to deploy than other measures, but this also means that reducing the flow of these broad interventions could create a point in time where recipient businesses take stock of their ongoing viability. It is preferable to stagger the respective end-points of different schemes in order to smooth any consequential adjustment.

## Next Steps

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41. If you agree to a six week extension to the Scheme, we recommend taking an oral item to Cabinet on Tuesday 2 June 2020, which will seek Cabinet's approval to extend the Scheme until 24 July 2020.
42. Treasury and IRD will jointly develop a communications pack to assist you in the announcement of the extension if it is agreed by Cabinet.
43. Treasury and IRD also seek your initial feedback on the possible options for reforming the scheme, including indicative timeframes for the next report back.







# Cabinet

## Minute of Decision

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### **Additional Item: Extension of the Small Business Cashflow (Loan) Scheme**

**Portfolio**                      **Revenue**

On 2 June 2020, Cabinet:

- 1        **noted** the update from the Minister of Revenue on the uptake of the Small Business Cashflow (Loan) Scheme (the Scheme);
- 2        **noted** that the closing date for the Scheme is currently 12 June 2020 [CAB-20-MIN-0196];
- 3        **agreed** to extend the closing date for the Scheme by six weeks to 24 July 2020.

Michael Webster  
Secretary of the Cabinet



# The Treasury

## Extension of the Small Business Cashflow (Loan) Scheme After 24 July 2020 Information Release

September 2020

This document has been prepared and released by the Treasury:

<https://covid19.govt.nz/updates-and-resources/legislation-and-key-documents/proactive-release/>

### Cabinet Document Details

Title: **Cabinet Paper: DEV-20-SUB-0131:** Extension of the Small Business Cashflow (Loan) Scheme After 24 July 2020

Date: **1 July 2020**

Creator: Office of the Minister of Finance / Office of the Minister of Revenue

**No Information has been Withheld**

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Office of the Minister of Finance

Office of the Minister of Revenue

Chair, Cabinet Economic Development Committee

## **EXTENSION OF THE SMALL BUSINESS CASHFLOW (LOAN) SCHEME AFTER 24 JULY 2020**

### **Proposal**

1. This paper seeks the Cabinet Economic Development Committee's agreement to a further extension of the Small Business Cashflow (Loan) Scheme until 31 December 2020. This is an extension from its current end date of 24 July 2020.

### **Background**

2. The Small Business Cashflow (Loan) Scheme (the Scheme) was established as one of the Government's measures to help cushion the economic impact of COVID-19 on businesses and organisations. A summary of the implementation of the Scheme is as follows:
  - 2.1 On 30 April 2020, Cabinet agreed to the establishment of the Scheme (CAB-20-MIN-0196 refers). The original period for applications was from 12 May 2020 to 12 June 2020. Legislation was passed to enable the Scheme to operate and be administered by Inland Revenue;
  - 2.2 On 11 May 2020, we informed Cabinet of minor decisions made on the design of the Scheme, and Cabinet agreed for legislative changes to be included in a Supplementary Order Paper to the COVID-19 Response (Further Management Measures) Legislation Bill (CAB-20-MIN-0217 refers);
  - 2.3 On 2 June 2020, we delivered an oral item advising on our decision to initially extend the closing date of the Scheme by six weeks from 12 June 2020 to 24 July 2020. No other adjustments to the Scheme were made at this time;
  - 2.4 On 29 June 2020, we delivered an oral item to inform Cabinet that we would be taking a paper to the Cabinet Economic Development Committee (DEV) on 1 July 2020 to propose a further extension of the Scheme as outlined in this paper. Cabinet agreed to give DEV the power to act so that this item does not need to return to Cabinet on 6 July 2020.
3. The following statistics on the Scheme are as of Wednesday 24 June 2020:
  - 3.1 87,861 loan applications have been made, with 83,374 of those having been approved and paid;

- 3.2 \$1.475 billion has been applied for, with \$1.400 billion having been approved and paid;
  - 3.3 The average amount applied for is \$16,784 and the average amount paid is \$16,788;
  - 3.4 Between approximately 400 and 700 applications were received per day for the Scheme for the week ending Friday 19 June 2020;
  - 3.5 94% of applicants have applied for the full amount they are eligible for;
  - 3.6 86% of applicants also received the Wage Subsidy;
  - 3.7 49% of applicants have only one full-time-equivalent (FTE) employee, and 31% of applicants have between two and five FTE employees.
4. Appendix One provides a breakdown of loan applications by region and industry.

#### **Further extension of the Scheme**

5. In accordance with the first extension of the Scheme, the closing date for applications is currently 24 July 2020.
6. We seek the Cabinet Economic Development Committee's agreement for the Scheme to be extended a second time to 31 December 2020.
7. This will allow businesses and organisations more time to consider their financial position in deciding whether or not to apply for a loan under the Scheme. Some businesses and organisations were not adversely affected by COVID-19 early on but may have suffered a more recent decline in revenue (such as in May/June rather than in February/March).
8. A further extension of the scheme will ensure that there is sufficient time for these businesses and organisations to be able to carefully consider whether they need the loan before taking it. Signalling now that the Scheme will be extended will assure businesses that this relief will be available going forward.
9. Inland Revenue will require approximately four weeks of lead-in time to implement any small changes to the Scheme, such as an extension of the closing date for applications.
10. When considering an extension to the Scheme, we focused on the following factors:
  - 10.1 Do businesses and organisations still need the support provided by the Scheme? Although the uptake of loans under the Scheme has slowed since it began, we note that there are further risks of an economic downturn and that support associated with other Schemes (such as the Wage Subsidy Scheme and the Business Finance Guarantee Scheme) are due to finish in the second half of the year.
  - 10.2 What is the broader macroeconomic situation? Given the evolving economic situation and the associated uncertainty, there may be a number of

businesses and organisations who require help later on that did not require help earlier. Extending the Scheme will enable broader firm support.

10.3 What is the opportunity cost? The existing appropriation for the Scheme represents funding that cannot be used for Wave 2 or Wave 3 initiatives. It may also lead to an increase in net core Crown debt.

11. Given these considerations, we believe that it is worthwhile extending the Scheme to continue to deliver ongoing cashflow relief to businesses and organisations.

12. We do not recommend any other adjustments to the Scheme at this time.

### **Consultation**

13. Inland Revenue and the Treasury were consulted in the preparation of this Cabinet papers and agree with its recommendations.

### **Financial Implications**

14. The current lending envelope for the Scheme is \$5.2 billion. Given the current demand for loans under the Scheme, the likelihood of this appropriation being exceeded is low. This means that the current appropriation is sufficient to last until 31 December 2020. We therefore recommend no changes to the appropriation for the Scheme.

15. We will continue to monitor the uptake of the loan. We note that the ending of the Wage Subsidy Scheme and any potential credit crunches in the second half of 2020 could lead to an increase in loan applications.

### **Legislative Implications**

16. No legislative implications arise from the decision to extend the Scheme or any of the adjustments.

### **Impact Analysis**

17. The Treasury has determined that the regulatory proposals in this paper are exempt from the requirement to provide a Regulatory Impact Statement (RIS) because they are intended to alleviate the short-term impacts of a declared emergency event of the COVID-19 pandemic. They introduce an urgent change and the exemption has been granted on the understanding the agency have included in the proposal's design a sunset clause limiting the duration of emergency response to December 2020, and that available analysis is included in this paper to support the policy decision making.

### **Publicity**

18. We expect to make an announcement about the extension promptly. Officials have provided us with an appropriate communications pack.

## Proactive Release

19. This paper will be included in a future proactive release of documents associated with COVID-19.

## Recommendations

The Minister of Finance and the Minister of Revenue recommend that the Cabinet Economic Development Committee:

1. **note** that, on 30 April 2020, Cabinet agreed to the establishment of the Small Business Cashflow (Loan) Scheme (CAB-20-MIN-0196 refers);
2. **note** that, on 2 June 2020, the Minister of Finance and the Minister of Revenue decided on a first extension of the closing date for applications to the Small Business Cashflow Loan Scheme by six weeks from 12 June 2020 to 24 July 2020;
3. **note** that, on 29 June 2020, Cabinet gave the Cabinet Economic Development Committee the power to act on deciding on a further extension of the Small Business Cashflow (Loan) Scheme;
4. **agree** to further extend the closing date for applications to the Small Business Cashflow (Loan) Scheme to 31 December 2020 to give businesses and organisations more time to apply for the Scheme;
5. **note** that no change to the \$5.2 billion appropriation for the Small Business Cashflow (Loan) Scheme is required with the extension of the closing date for applications;
6. **note** that this Cabinet paper, the associated Cabinet minute, and key advice papers will be released as part of a proactive release of documents associated with COVID-19.

Authorised for lodgement

Hon Grant Robertson  
Minister of Finance

Hon Stuart Nash  
Minister of Revenue

## Appendix One

1. Breakdowns of loan applications by each of region and industry are as illustrated in the following tables:

Table 1: Applicants by location as at Wednesday 24 June 2020

Location	Loan approved (\$m)	Volume (N)
The Greater Auckland Region	\$601.8	36,790
Christchurch	\$179.3	10,391
Wellington	\$133.2	7,969
Hamilton	\$102.3	5,884
Tauranga	\$75.6	4,579
Dunedin	\$69.7	3,953
Palmerston North	\$48.9	2,841
Whangarei	\$45.8	2,822
Nelson	\$40.7	2,334
Napier	\$37.1	2,133
Rotorua	\$34.2	1,986
New Plymouth	\$27.1	1,559
Timaru	\$20.1	1,078
Invercargill	\$19.4	1,086
Gisborne	\$8.3	484
Greymouth	\$8.0	488
No location information	\$22.8	1481
<b>Totals</b>	<b>\$1,474</b>	<b>87,858</b>



Table 2: Applicants by industry as at Wednesday 24 June 2020

Industry	Loan approved (\$m)	Volume (N)	Avg. Loan per applicant ('000)
Construction	\$232.9	14,066	\$16.60
Accommodation	\$195.4	8,574	\$22.80
Professional, Scientific and Technical Services	\$137.6	8,862	\$15.50
Retail Trade	\$132.1	7,689	\$17.20
Manufacturing	\$109.6	5,175	\$21.20
Other Services	\$102.1	6,381	\$16.00
Transport, Postal and Warehousing	\$81.2	5,832	\$13.90
Administrative and Support Services	\$76.4	4,923	\$15.50
Wholesale Trade	\$61.0	3,332	\$18.30
Rental, Hiring and Real Estate Services	\$61.0	4,277	\$14.30
Health Care and Social Assistance	\$48.1	2,670	\$18.00
Agriculture, Forestry and Fishing	\$39.9	2,423	\$16.50
Arts & Recreation Services	\$29.4	1,795	\$16.40
Education and Training	\$22.6	1,314	\$17.20
Information Media and Telecommunications	\$19.7	1,260	\$15.60
Financial and Insurance Services	\$18.4	1,272	\$14.50
Public Administration & Safety	\$5.1	271	\$18.80
Electricity, Gas, Water & Waste Services	\$4.1	227	\$18.10
No industry Information / very low industry volumes	\$97.7	7,515	\$13.00
<b>Totals</b>	<b>\$1,474</b>	<b>87,858</b>	<b>\$16.78</b>

# The Treasury

## Extension of the Small Business Cashflow (Loan) Scheme after 24 July 2020 Information Release

September 2020

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# Cabinet Economic Development Committee

## Minute of Decision

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### Extension of the Small Business Cashflow (Loan) Scheme after 24 July 2020

**Portfolios**                      **Finance / Revenue**

On 1 July 2020, the Cabinet Economic Development Committee, having been authorised by Cabinet to have Power to Act [CAB-20-MIN-0319]

- 1        **noted** that on 30 April 2020, Cabinet agreed to the establishment of the Small Business Cashflow (Loan) Scheme (the Scheme) [CAB-20-MIN-0196];
- 2        **noted** that on 2 June 2020, Cabinet agreed to extend the closing date for applications to the Scheme by six weeks from 12 June 2020 to 24 July 2020 [CAB-20-MIN-0256];
- 3        **agreed** to further extend the closing date for applications to the Scheme to 31 December 2020 to give businesses and organisations more time to apply for the Scheme;
- 4        **noted** that no change to the \$5.2 billion appropriation for the Scheme is required with the extension of the closing date for applications.

Janine Harvey  
Committee Secretary

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**Present:**

Hon Kelvin Davis  
Hon Grant Robertson (Chair)  
Hon Phil Twyford  
Hon Stuart Nash  
Hon Iain Lees-Galloway  
Hon Jenny Salesa  
Hon Damien O'Connor  
Hon Kris Faafoi  
Hon Shane Jones  
Hon Willie Jackson  
Hon James Shaw  
Hon Eugenie Sage

**Officials present from:**

Office of the Prime Minister  
Officials Committee for DEV