Fact sheet

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Supporting small and medium sized enterprises during the COVID-19 crisis

The COVID-19 crisis has had a significant impact on small and medium-sized enterprises (SMEs).

In recognition of the challenges facing business, the Government has already introduced a wide range of measures to assist businesses through the crisis. These include the wage subsidy scheme, the Business Finance Guarantee scheme, and a package of business tax changes. While these measures apply to businesses beyond just SMEs, they provide substantial benefits to the SME sector.

More support is needed however, to boost confidence and help SMEs get through the crisis. In particular, some SMEs are struggling to meet their non-labour related fixed costs, but are not in a position to take on additional debt. Without further support from the Government, some otherwise viable SMEs may be forced to close down permanently.

The Government has announced a suite of new measures to provide relief for businesses during the COVID-19 pandemic.

These include:

- Greater flexibility for taxpayers in respect of statutory tax deadlines;
- Changes to the tax loss continuity rules;
- A tax loss carry-back scheme;
- Measures to support commercial tenants and landlords; and
- Further business consultancy support.

Greater flexibility for business taxpayers in respect of statutory tax deadlines	Inland Revenue will be given greater flexibility to modify timeframes or procedural requirements for taxpayers who are impacted by COVID-19. An amendment will introduce a discretionary power into the Tax Administration Act 1994 to allow Inland Revenue to provide an extension to due dates and timeframes, or to modify procedural requirements set out in the Revenue Acts. This could include, for example, extending deadlines for filing tax returns and paying provisional and terminal tax. At this stage, the power will be time-limited for a period of 18 months and will apply to businesses affected by COVID-19.
Changes to the tax loss continuity rules	Our current rules are amongst the most stringent in the world, and we recognise that in this extraordinary time, businesses may need to raise additional capital to remain afloat. The in-principle announcement gives taxpayers raising capital a level of certainty to undertake these transactions, while also giving officials time to work through the detailed design of rules that can be included in a bill in the second half of 2020. The new rules will apply for the 2020-21 and later income years.
A tax loss carry-back scheme.	A loss carry-back mechanism enables a firm to offset a loss in a particular tax year against a profit in a previous year, and receive a refund of the tax paid in the previous profitable year. The proposed mechanism will provide cash to firms that are, or anticipate, being in loss. A temporary mechanism will be included in a bill introduced the week of the 27th of April. Between now and then Inland Revenue will be undertaking targeted consultation with tax advisors to make the law and administrative guidance as clear as possible.
Measures to support commercial tenants and landlords.	While many businesses, including commercial landlords and tenants, are working together to find a way through the pressures caused by COVID-19, we are supporting stability by extending the timeframes required before landlords can cancel leases and mortgagees can exercise their rights to sale or repossession. These changes would still allow landlords to cancel leases and mortgagees to exercise their powers during the period that an epidemic notice is in force, but would allow for more time for breaches or defaults to be remedied.
Further business consultancy support	Businesses will be able to access free, tailored specialist support for a range of issues they may be currently facing, including business continuity planning, finance and cash flow management, HR and staffing issues, and potentially any sector-specific issues. The Regional Business Partner Network will scale up their existing advisory services so that more businesses can receive support over the next 12 months. Existing helplines often used by business – those operated by the Employers and Manufacturers Association and the

	Canterbury Chamber of Employment and Commerce – will also be extended. These increased services will help businesses understand the support available to them.
Cost of the measures	It is challenging to cost these measures and quantify benefits to business: the effect of the economic downturn due to COVID-19 is still emerging, and it is difficult to quantify the benefits of businesses being enabled to remain in operation as a result of this assistance. Officials have, however, estimated that the tax loss carry-back scheme could lead to refunds and reduced tax bills of $1.2 billion in 2019-20 and $1.9 billion in 2020-21. The loosening of tax continuity rules is estimated to result in $60 million of foregone government revenue (and savings to businesses) per year. Providing increased business consultancy support is likely to cost $25 million over the next 12 months.
Further information	For information about the tax support measures, visit the IR website here.

Tax loss continuity example

A start-up firm, Conference in the Clouds Limited (CIC) offers microphone and webcam software. It has been making large losses in recent years. However, it now wants to scale up significantly, given that more people are working from home and using videoconferencing.

Despite its promising early-development software, banks are unwilling to lend to CIC without it having a firm revenue base. CIC has approached several investors, and has received an offer from a video conferencing company, Cloudcon Limited (Cloudcon), to inject millions of dollars into CIC in return for a 75% stake in the business. CIC wants to accept the investment, but is wary of losing the value of its losses, which would be extinguished under the current shareholder continuity test. The government's new ‘same or similar business’ test ensures that CIC can take on the new investor without losing its losses because its business will be of a same or similar nature as the business it was carrying on when it made the losses.

Given this, the price CIC’s owners receive for the 75% equity stake is higher (the business receives a greater capital injection) as the ability to carry forward losses makes the business more valuable to investors.

Loss carry-back example

Wiki Wiki Hospitality Limited (Wiki) has had a profitable year for the year ended 31 March 2020. It has not yet finalised its tax return, but it is expected to return $2m net income. Its final provisional tax payment for the expected $2m income is coming up on May 7, where it expects to pay $250,000 in tax (it has already paid $310,000 in early provisional tax instalments).

However, because of COVID-19, it is not operating at the moment, and does not know when it will be allowed to resume operating. It is still paying its staff (supported by the wage subsidy scheme) and rent. It seems inevitable that it will make a loss in the year ended 31 March 2021. In early May, the directors meet with the CFO and forecast some scenarios. In all the scenarios, Wiki will make a loss of $1.5m for the year-ended 31 March 2021, although some scenarios sees it making a $2m loss.

Knowing it will face use-of-money-interest charges if it over-estimates its loss, Wiki decides to carry-back the more certain loss of $1.5m to the 2019/20 year, and re-estimate its income for that year to $500,000 (down from $2m). Because it has already paid $310,000 in tax, it pays nothing on May 7, and receives a refund of $170,000 from its earlier provisional tax payment.

In short, for the 2019/20 year, Wiki returns $500,000 of income and pays $140,000 tax, receiving back its earlier payments as refunds.