

Frequently asked questions



Supporting small businesses

- Interest-free loans more widely available, zero-interest period extended
- Tighter regulation of merchant service fees
- More support for digital transformation of SMEs
- Promotion of digital commerce
- Government funding for tailored business advice
- Mitigating compliance and administrative costs
- Overhaul and simplify the Accounting Income Method (AIM) tax regime to make it easier for small business to move to a 'pay as you earn' type model for tax throughout the year

Q. What are the improvements you're proposing to the small business loan scheme?

A. The loan scheme has proved incredibly popular with small businesses so far, and it's estimated more than one-quarter have already taken out an interest-free loan.

But access to finance will remain an ongoing issue for SMEs, well after applications close 31 December 2020.

As the economy continues to recover from the impact of COVID19, there may be uneven patterns of activity in some sectors, and interest-free loans will continue to be in demand.

The main changes involve:

- Extending the life of the scheme for a further three years, after the currently scheduled end date.
- Starting work on a more permanent arrangement for SMEs to access finance.
- The interest-free period of the loan will be extended to two years. The current scheme is interest-free for one year, and thereafter charges three per cent interest from the date of draw-down of the loan.
- The original purpose of the loan scheme was to help businesses with core operating, like rent, insurance and utilities. It will be broadened by this policy, to enable investment in new equipment or digital infrastructure, or other investment to help businesses adapt to the impact of COVID19.
- The current requirement to repay the loan within five years remains the case in this policy; as does the requirement for a SME to demonstrate it is a viable concern.

Q. How will you regulate merchant service fees charged by banks?

A. This will require legislative authority and the measure will go through the standard Parliamentary processes, with an opportunity for public and sector consultation.

Agencies like Retail NZ have demonstrated that NZ retailers are paying nearly twice the fee that banks charge Australian retailers. Based on average sales volumes, this costs NZ retailers an estimated \$13,000 more than a similar business dealing with a similar bank across the Tasman.

Major banks did voluntarily suspend fees during the earlier COVID outbreak but have since reinstated them.

Regulation is likely to be overseen by the Reserve Bank and the Financial Markets Authority. The Australian system is overseen by the Reserve Bank of Australia. The Commerce Commission could potentially also have input to the proposed legislation as it has oversight of regulating other prices.

Frequently asked questions



Q. What other support is being rolled out to help support jobs and businesses through COVID19?

A. Businesses are currently being supported through initiatives like:

- The Apprenticeship Boost scheme, which pays employers \$12,000 in the first year and \$6,000 in the second year to take on and train new staff. Lessons from the Global Financial Crisis showed it was a mistake to cut apprentices because it left businesses struggling with skills shortages when the economy opened up.
- The Flexi wage extension subsidises employers to take on workers who would otherwise be at risk from long-term unemployment. Announced by Labour in August, it aims to get 40,000 Kiwis back to work.
- The Business Finance Guarantee Scheme: \$6.25 billion scheme to leverage the government's balance sheet helping banks to support otherwise viable firms so they stay in business and keep on staff.
- Regional Business Partners - \$25 million provision in Budget20 then a subsequent extra \$40 million. Professional business advice through local Chambers of Commerce, Economic Development Agencies, through vouchers worth up to \$5,000
- Loss carry back scheme – spreading losses over previous year. Already 2,200 businesses have received tax refunds and adjustments worth more than \$104 million
- Increasing the provisional tax threshold from \$2,500 to \$5,000. This relieves the compliance burden for small businesses as well as freeing up cashflow. It allows people to delay paying their provisional tax. They can wait until 7 February in the year following the year they file their return before they have to pay, instead of having to pay in instalments throughout the year. It allows them to retain cash for longer. It will benefit an estimated 95,000 SMEs.
- Allowing immediate low-value asset write-offs for business items up to \$5,000.
- A \$400 million Tourism Recovery Fund to protect jobs and shift the focus to domestic markets
- A \$600 million aviation relief package, to keep exports and air freight moving

Q. How does e-invoicing work and what are some of the benefits?

A. E-invoicing replaces paper-based or PDF invoices that have to be manually processed, with a common digital language that allows different payment and accounting systems to speak to each other. Businesses can prepare for e-invoicing by adopting a New Zealand Business Number (NZBN). The NZBN enables e-Invoicing and can be fully integrated into procurement and finance systems. Late payments and long payment terms are some of the biggest sources of stress and cash flow problems for small businesses. As a more accurate, secure and efficient process, e-Invoicing will help ensure businesses can be paid on time.

E-invoicing has been possible in New Zealand since late 2019. It has been driven by the Prime Ministers of New Zealand and Australia as part of the Single Economic Market agenda to create a seamless trans-Tasman business environment.

Q. What's the plan to encourage other forms of digital transformation?

A. Greater use of digital technology and processes will be a hallmark of commerce in the future. Yet many SMEs struggle to embrace new tools because they are so busy focussing on their core business. Labour will invest \$75million in new digital training courses for SMEs with up to 20 staff.

Frequently asked questions



Q. How will the *Business Connect* initiative help address concerns about the time it takes to comply with some local government and central government processes?

A. Some small operators say it takes more time than it should to deal with paperwork. They say they often have to repeat the same information and feel there could be better co-ordination across government.

The *Business Connect* platform was launched as a pilot scheme in late 2019 and Labour is keen to see its benefits rolled out more widely. There will always be a need to protect consumers and other businesses through effective checks on issues like food hygiene, commercial waste disposal, noise control, and liquor licensing. But we believe there can be greater efficiencies in some cases.

Business Connect brings together the process for permits, licences and consents. It is working with central government agencies like MBIE, Ministry of Health, the Companies Office, MPI, and Customs; as well as local government authorities in Selwyn and Manawatu.

It is still early days but 20,000 businesses are already using the digital platform. It is likely to be of particular use for the hospitality industry, such as cafes, bars and restaurants.

By integrating a unique identifier, the NZBN, businesses can pre-populate around two-thirds of the information and data they are required to supply on some standard application forms. It not only saves businesses time, but ensures there is less room for error and delays.

Q. The ability to do business in New Zealand is the envy of many other nations, is there really much scope to minimise the impact of new regulations?

A. New Zealand consistently ranks number one in the world for ease of doing business, in the annual survey by the World Bank.

We are in good company with nations like Singapore, Hong Kong, Denmark and South Korea rounding out the top five. Our top spot is supported by a stable regulatory environment focussed on encouraging more productive, sustainable and inclusive economic activity. Our economy was very strong going into the first wave of COVID19.

But we are not complacent and know we need to keep improving.

There is already keen oversight of new regulations through the Regulatory Impact Analysis statements which are produced by each government agency whenever a Cabinet decision is made, and overseen by Treasury. We want to go further.

We are interested in picking up the idea suggested by the Small Business Council, which looked to the Danish 'better regulations' approach. In a New Zealand setting, it would involve a cross-government unit dedicated to ensuring that every new regulation was considered from the perspective of its impact on small business.

Further information is available in the Small Business Council's [The New Zealand Small Business Strategy](#) and the [Government's initial response](#).

Q. How does the AIM system work for small businesses tax payments?

A. The accounting income method (AIM) is available to individuals and companies with a yearly turnover under \$5 million. AIM software is designed for SME owners where:

- your business is growing
- you're new to business
- your income has reduced significantly since last year and is hard to estimate

Frequently asked questions



- you have irregular or seasonal income
- it's hard to forecast your income accurately
- you have accounting software or want to start using accounting software.

The AIM regime was put in place by the previous government and has been available for two years. However business owners report the rules associated with the new system make it complex and difficult to use. Labour is committed to keeping the tax system simple and fair for SMEs. Our improvements would be done in consultation with tax agents and software providers.

Q. What other business support measures have been implemented via the tax system?

The Tax Working Group (TWG) concluded that the current approach to the taxation of business is largely sound. The TWG investigated a number of options for tax reform that could enhance productivity and boost investment. These include measures such as changes to the loss-continuity rules, an expansion of black-hole deductions, building depreciation deductions, and concessions for nationally significant infrastructure projects. The Government has progressed all of these reforms.

Q. Who is eligible for the Small Business Cashflow Scheme?

A. The Small Business Cashflow Scheme is open to small to medium businesses with 50 or fewer full-time employee equivalents. This includes sole traders and self-employed businesses. Businesses can assess through the [Small Business Cashflow Scheme eligibility tool](#) on the business.govt.nz website.

Q. How many small businesses have taken up the scheme?

A. By the first week of September 2020, around 94,500 small businesses, most of them micro businesses employing five or fewer staff, had borrowed almost \$1.6 billion. The average loan was around \$16,500.

Many businesses have also started repaying their loans as the economy opens up, with 3,900 SMEs repaying almost \$18 million by the first week of September.

Q. How much can a business borrow?

A. The size of the loan depends on the number of full-time-equivalent employees, with a starting loan of \$10,000 plus \$1,800 per full-time-equivalent employee. The maximum loan is \$100,000. Sole traders can receive a loan of up to \$11,800.

Q. Do I have to apply to the new scheme if I'm already signed up to the existing scheme?

A. Existing borrowers will be migrated onto the new scheme.

Q. Do I need to provide security for the loan?

A. No

Q. Is it even the role of government to be involved in cash flow support to SMEs?

A. Establishing alternative sources of finance for small businesses was a core recommendation of the Small Business Council. They observed that options for finance are limited in New Zealand and the major banks are the main avenue. This is due to there being few alternative lenders offering funding at affordable rates and the equity and angel investment market is small.

Frequently asked questions



Q. Which businesses will be eligible for the Digital Training Voucher Programme?

A. The new voucher scheme will be targeted to businesses with between 1 and 20 employees over the next two years.

Q. Who will deliver the Digital Training Voucher Programme?

A. The training will be delivered by Chambers of Commerce, Regional Business Partners, or industry bodies.