

## Supporting small businesses: summary

- **Small business cashflow scheme extended for three years**
- **Support and incentives to digitise small businesses**
- **Regulating Merchant Service Fees to support retailers**
- **Renewed focus on digitising and easing interaction with Government**

Small businesses generate 28 per cent of New Zealand's GDP and employ over 600,000 people. Labour has a comprehensive plan to support our small businesses, entrepreneurs and job creators to respond to COVID-19.

A recent Xero survey concluded New Zealand was leading the small business employment recovery. 170,000 small businesses received the Wage Subsidy and 73,000 received the Wage Subsidy Extension. Alongside the wage subsidy, the Small Business Loan Scheme has provided access to zero interest loans to support cashflow and provide a buffer against uncertainty.

Our response to COVID-19 builds on our work to support small businesses' ability to grow. With the Small Business Council, we have set an ambitious work plan to support small businesses. From creating Business Connect and requiring Government departments to pay invoices promptly, to investing in the Regional Business Partner Network and amending the Fair Trading Act to better protect small businesses, Labour is backing small businesses.

The next phase of our plan tackles a number of the challenges identified by the Small Business Council's Small Business Strategy. Labour will provide targeted support to enable small businesses to access finance, invest in digital technology, and reduce costs.

**Labour will support small businesses to access finance** by extending the Small Business Cashflow Scheme for three years, extending the interest-free period, and investigating permanent financing for small businesses.

**Labour will regulate Merchant Service Fees so retailers retain more of their sales.** New Zealand retailers pay nearly twice as much as their Australian counterparts for debit and credit card services, costing New Zealand retailers on average \$13,000 more per year.

**Labour will support small businesses to improve resilience and save time and money through digital technology.** Labour will create a new \$2,500 Digital Training Voucher to cover the cost of digital training through trusted advisor organisations such as Chambers of Commerce and industry associations, and establish a digital enablement framework – a long term strategy for the uptake of digital technology by business.

**Labour will focus on digitising and easing interaction with Government** through the creation of a specific unit to work with small businesses to develop innovative processes to digitise and minimise administrative or compliance costs. We'll also accelerate the roll out of Business Connect and promote the use of e-invoicing.

## Supporting small businesses' access to finance

- **Small Business Cashflow Scheme extended for three years**
- **Businesses benefit from second year interest free**
- **Commitment to consider permanent alternatives**

Access to finance is one of the main challenges small businesses face, especially those businesses with five or fewer employees. MYOB's Business Monitor found that a third of small businesses struggle to access finance and another third had never tried to raise a loan. Applying for finance can be administratively burdensome and banks often require security over the business owners' home.

### **Small Business Cashflow Loan Scheme**

Labour will extend the Small Business Cash Flow Scheme for three years and the interest free period from one year to two years. Extending the scheme will provide targeted support to vulnerable but viable small businesses as they recover from COVID-19 and support the financing of necessary investments to support their resilience to COVID-19. It will provide businesses greater certainty, support confidence and keep up the momentum of recovery. The scheme also supports small businesses to access finance, one of the key findings of the Small Business Council.

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

As the recovery continues, ongoing uncertainty means businesses will continue to need financing to cover lower than expected sales and to ensure they are resilient.

The Small Business Cash Flow Scheme is currently available to all small businesses who have 50 or fewer full-time-equivalent employees and were eligible for the first wage subsidy. 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.

In addition to extending the term of the loan and the interest free period, Labour will retain the eligibility of the current scheme so it can be used to invest in new equipment or digital infrastructure, finance investments to enable businesses to grow, or to enable businesses to adapt to COVID-19.

Businesses will have five years to pay off the loan. Loans will be subject to an annual interest rate of 3 per cent. Small businesses will now have two years to repay the loan without being charged any interest. All existing Small Business Cash Flow Scheme borrowers will be migrated onto the new scheme.

To be eligible for the Small Business Cash Flow Scheme a business or organisation needs to be viable and the applicant 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.

A business is required to keep evidence of the business or organisation's ongoing viability at the time of requesting the loan, as Inland Revenue may audit an application. Inland Revenue suggest evidence may include:

- a cash-flow forecast for the business or organisation 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 or organisation has enough resources to sustain itself when including the Small Business Cash Flow Scheme loan
- an accountant's assessment that the business or organisation is viable and ongoing.

### **Establishing a permanent source of finance for small businesses**

Labour will investigate ways to support small businesses with finance, such as the Small Business Council's proposed Small Business Growth Fund, repurposing the Small Business Cashflow Loan Scheme, establishing a micro-finance company for small businesses, or expanding the mandate of the Venture Investment Fund.

## Growing businesses through digital technology

- **30,000 Digital Training Vouchers for short-courses or training in digital technology**
- **Establish a digital enablement framework to set out a long-term strategy for the adoption of digital tools in businesses.**

Traditionally, New Zealand businesses have struggled to adopt digital technologies. Small business owners have limited time to devote to working 'on the business' as opposed to working 'in the business'. This often means it is difficult to invest in the skills and training needed to take advantage of the possibilities digitisation provides.

Digital technology offers an exciting opportunity to improve productivity and save small businesses money and time. A recent NZIER report suggested a 20 per cent uptake in cloud-based technology could increase NZ's GDP by around \$6.2 billion and increase business output by \$4.1 - \$7.3 billion every year.

Due to COVID-19, McKinsey estimates that consumer and business digital adoption has vaulted five years forward in around eight weeks. The lockdown showed just how innovative and agile small businesses can be as they responded by adopting innovative ways of doing business. We now have a window of opportunity to cement the progress we have made and build on that progress to improve productivity and drive growth.

### Supporting the uptake of digital technology

Fewer New Zealand small businesses are taking advantage of digital technology and e-commerce compared to their international counterparts. To support small businesses take advantage of the opportunities digital technology provides, Labour will fund \$2,500 of free training for 30,000 small businesses through a new Digital Training voucher. The voucher will cover fees for short-courses or training in digital technology or for support to assess their use of digital technology and develop a digital action plan.

The new voucher scheme will be targeted to businesses with between 1 and 20 employees over the next two years. The training will be provided by Chambers of Commerce, Regional Business Partners, or industry bodies. The training will be targeted to those businesses being introduced to digital technology and working digitally, and include both general digital skills and training that is tailored to a particular industry.

**Scenario One:** Darryl is a registered Master Builder and owns and manages a small residential construction company with five employees. During COVID-19 he really struggled to continue to work in the business as his plans, paperwork, and accounts were in an office onsite. Master Builders Association runs a new training event on using cloud accounting software and an introduction to working digitally. Darryl will be able to apply for a voucher through Master Builders to undertake the course.

**Scenario Two:** Rachel runs an artisanal café, bakery and catering business in Merivale, Christchurch. Her business had relied on walk-in clientele until COVID-19. During Alert Level 3 she established a pre-ordering system where customers would text her their orders based off a menu posted on Facebook. However, she would like to create an online ordering system through Facebook to enable customers to order and pay online. This would expand her business and enable her to be prepared should COVID-19 re-emerge. The Canterbury Chamber of Commerce runs a two-day training course on e-commerce. Rachel applies for her voucher through the Chamber and attends the course.

## **Developing a digital enablement framework**

Labour will continue developing a digital enablement framework to set out a long-term strategy for the adoption of digital tools in businesses, supported by shorter industry specific guidance. The strategy will set out how government will work to support small businesses to take up digital technology to increase their business' productivity, reduce costs and support growth. The framework will focus on creating a regulations that are technology neutral, increasing digital skills, ensuring small businesses have access to the infrastructure required to digitise, and improving the availability of financing.

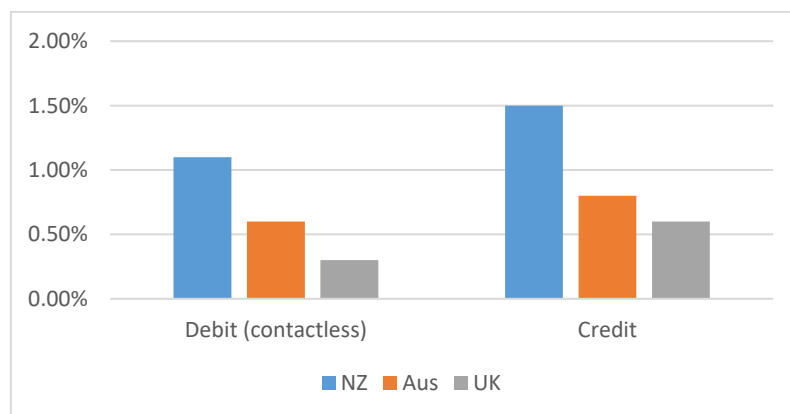
## Regulate Merchant Service Fees to save retailers money

- **Regulate Merchant Service Fees to bring them in line with overseas costs, potentially saving an average retailer as much as \$13,000 per year\***

Merchant Services Fees are the fees charged to retailers for debit and credit card transactions, usually a percentage of the transaction. Historically, New Zealand has been unique in having a domestic EFTPOS network which is essentially fee-free for the merchant. This drove New Zealand's faster uptake of EFTPOS in the late 1990s. However, as the use of EFTPOS diminishes and more New Zealanders use contactless debit and credit cards, the cost of payment systems to retailers is steadily increasing.

Recently, COVID-19 has emphasised the need for contactless payment options to help protect both businesses and customers.

Retail NZ's 2019 Payment Survey showed retailers were paying 1.1% of the value of every transaction on a contactless debit card and 1.5% on credit cards to their Banks. This is nearly twice as much as Australian retailers pay for debit and credit card services. Based on average sales volumes, this costs New Zealand retailers on average an estimated \$13,000 per year more than their Australian counterparts.



Source: Retail NZ 2019 payment survey

In 2003 the Reserve Bank of Australia mandated that interchange fees be set on a cost-based benchmark. In 2010, the US Federal Reserve was given the authority to cap interchange fees for debit cards. These regulations have reduced costs on retailers while continuing to enable investment in payment infrastructure.

Labour will regulate the cost of Merchant Service Fees charged by a retailer's bank to reduce costs on retailers. In developing the regulations, Labour will take into account New Zealand's largely fee-free EFTPOS system and the ongoing work towards open-banking.

\* Retail NZ's 2018 *Dynamic Retail Report* recorded \$92.3 billion in sales across 35,000 retail outlets at an average of \$2.6m per store. \$13,000 is based on the difference between the weighted average Merchant Service Fees in Australia and New Zealand on average sales.



## Focus on digitising and easing small business' interaction with Government

- **Accelerate the implementation of Business Connect, and tools such as e-invoicing and the New Zealand Business Number supported by a new unit to work with small businesses to develop innovative processes to digitise Government processes**
- **Commitment to promote the uptake of digital technology**
- **Simplifying Accounting Income Method to provide more tax flexibility for small businesses**

New Zealand is consistently ranked as one of the easiest places in the world to do business. However, Labour knows there is more we can do to back small businesses in their work. Labour is committed to ensuring Government is an enabler of small business and minimises the compliance burden to the greatest extent possible. We're committed to working with business to shift the focus from rules and the needs of regulators to outcomes, and supporting businesses to meet their obligations.

The Prime Minister's Business Advisory Council and Small Business Council both identified a need to focus on developing innovative digital processes to minimise administration for small businesses.

### **Accelerate the Business Connect and support the shift from compliance to enablement**

Business Connect is a secure digital platform that brings together licensing, consent and permit systems used across councils and government agencies. Business Connect allows small businesses to interact with Government seamlessly through a single digital service platform with their key information pre-populated. In our first term we started expanding the service to local government in Manawatu and Selwyn.

Labour will accelerate the implementation of Business Connect, and tools such as e-invoicing and the NZBN, to reduce regulatory compliance and make it easier for small businesses to deal with one another, and with the Government. Within Business Connect a dedicated unit, based on the Danish Better Regulation model, will work with small businesses identify frequently used processes to digitise and develop innovative processes to reduce costs.

### **Ensuring Government promotes the uptake of digital technology**

Labour will promote the uptake of e-invoicing by requiring e-invoicing for all interactions with the state sector by December 2022.

### **Simplifying Accounting Income Method to provide more flexibility for small businesses**

The Accounting Income Method (AIM) is a way of calculating provisional tax and is available to individuals and companies with a yearly turnover under \$5 million.

Labour will work with small businesses and the accounting sector to overhaul and simplify the AIM tax regime to ensure it is easy for small businesses to move to a 'pay as you earn' model throughout the year

## Supporting small businesses

Supporting small businesses is a key plank in our five-point plan for our economic recovery. Labour has cushioned the blow of COVID-19 and supported small businesses to recover by:

- Establishing the Wage Subsidy and Small Business Loan Scheme.
- Providing immediate cash flow through the loss carry-back scheme and enabling businesses to deduct building depreciation.
- Investing in skilled workers by making trades training and apprenticeships free leading to record numbers of New Zealanders deciding to learn a trade.
- Providing up to \$16,000 per first and second year apprentice through Apprenticeship Boost. So far more than 1,900 firms have signed up to the scheme.
- Establishing the Business Finance Guarantee Scheme for those businesses for whom the Small Business Loan Scheme may not be available or appropriate.
- Enabling business to carry forward losses in a change of ownership if the business continues in the same or a similar way it did before ownership changed.
- Investing \$55m in the Regional Business Partner Network to support small businesses to adapt and innovate to deal with the impact of the virus. Regional Business Partners have supported 13,584 small businesses to recover or grow, through COVID-19 advisory and capability development funding, innovation support and Business Mentors NZ mentoring support.
- Providing intensive support to exporters and business development managers on the ground in overseas markets to support exporters do business in places where they are unable to travel to.
- Allowing Inland Revenue to change due dates, timeframes or other procedural requirements for tax returns for taxpayers affected by COVID-19.

This plan is one part of our plan to support small businesses recover and grow. Labour will also expand FlexiWage to support up to 40,000 more people into work, or to help them start their own business.

This progress comes on top Small Business Council's *Small Business Strategy*. Labour is committed to tackling the issues the Council identified and working through their recommendations. In addition to the policies Labour has announced today, we:

- are leading on prompt payment practices by setting a target for government departments to pay 95 per cent of domestic invoices in 10 business days.
- are facilitating access to finance through a new online tool on the [business.govt.nz](https://business.govt.nz) site. The Funding Explorer will be an interactive resource to help business owners identify the right finance options for their circumstances. It is a partnership with the banking industry and business and accountancy specialists.



- are supporting small businesses to build capabilities and skills, particularly digital skills, through new resources on [business.govt.nz](https://business.govt.nz) developed in partnership with technology leaders from Duke University in the U.S.
- invested \$10m towards the initial Small Business Digital Enablement Strategy and its four e's: energise, educate, equip, and embed. This includes funding small business digital champions and establishing a contestable fund for industry associations and training organisations to provide sector specific digital advice to small businesses.
- levelled the playing field for New Zealand retail stores by requiring overseas businesses selling goods at \$1000 or less to consumers in NZ to pay GST.
- Established Business Connect, a new digital platform to make it easier for small businesses to access services from multiple government agencies so they can focus on their own priorities
- Provided better protection to consumers and small businesses from unfair contract rules by amending the Fair Trading Act, including extending existing protections against unfair contract terms to business-to-business trading relationships with a value below \$250,000 per year.

## Costings

### **Small Business Loan Scheme**

We have conservatively estimated this scheme will cost \$1.5 billion on the same basis as the existing Small Business Loan Scheme. We've assumed 1,000 new applications a week, at the rate of the current average of \$16,500 per application. This would result in additional lending of \$2.57 billion. Uptake of the scheme will depend on the economic situation at the time and business behaviour. When the Scheme was first established Treasury recommended setting aside \$3.25 billion against a potential \$6.5 billion of lending. Labour's extension is within that original envelope. Further costs will be charged against the COVID Response and Recovery Fund as this funding supports small business cash flow and enables them to make necessary investments to adapt to COVID-19.

### **Digital Training Vouchers**

The Digital Training Voucher Programme will cost \$75m over two years funded through the COVID-19 Response and Recovery Fund. This training will support businesses to adapt to COVID-19 and continue operating when required to work from home.

### **Accelerating business connect**

Budget 2020 invested \$12.5m for Trans-Tasman e-invoicing, \$3m for Business Connect, and \$9.7m for the Better Business Programme for making it easier for businesses to deal with Government. We have allocated \$10m in our fiscal strategy for our commitment to accelerate business connect. The Business Connect development unit will be funded through MBIE's baselines.

The Digital Enablement Framework, developing the merchant fees regulations, requiring e-invoicing from 2022, and simplifying Accounting Income Method so more businesses can use it will be undertaken through agency baselines as part of the normal policy process.