The Treasury

Advice on COVID-19 Response - Tranche Three Information Release

September 2022

This document has been proactively released by the Treasury on the Treasury website at

https://www.treasury.govt.nz/publications/information-release/advice-covid-19-response-information-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:

[4]	6(c) - to avoid prejudice to the maintenance of the law, including the prevention, investigation, and detection of offences, and the right to a fair trial
[25]	9(2)(b)(ii) - to protect the commercial position of the person who supplied the information or who is the subject of the information
[27]	9(2)(ba)(ii) - to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information would be likely otherwise to damage the public interest
[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
[35]	9(2)(g)(ii) - to maintain the effective conduct of public affairs through protecting ministers, members of government organisations, officers and employees from improper pressure or harassment
[36]	9(2)(h) - to maintain legal professional privilege
[39]	9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage
[41]	18(c)(i) – that the making available of the information requested would be contrary to the provisions of a specified enactment

Where information has been withheld, a numbered reference to the applicable section of the Act has been made, as listed above. For example, a [4] appearing where information has been withheld in a release document refers to section 6(c).

Copyright and Licensing

Accessibility

The Treasury can provide an alternate HTML version of this material if requested. Please cite this document's title or PDF file name when you email a request to information@treasury.govt.nz.

Inland Revenue
Te Tari Taake

POLICY AND REGULATORY STEWARDSHIP

TE TAI ŌHANGA
THE TREASURY

Tax policy report: Changes to economic support for the Omicron outbreak

Date:	1 March 2022	**Priority:**	High
Security level:	In Confidence	**Report number:**	IR2022/078 T2022/414

Action sought

	Action sought	Deadline
Minister of Finance	**Agree** to recommendations **Note** the contents of this report **Authorise** and **lodge** a Cabinet paper	2 March 2022
Minister of Revenue	**Agree** to recommendations **Note** the contents of this report	2 March 2022

Contact for telephone discussion (if required)

Name	Position	Telephone
Carolyn Elliott	Policy Lead, Inland Revenue	[39]
Jean Le Roux	Manager, Regions, Enterprise and Economic Development, The Treasury	
Jason Batchelor	Policy Advisor	[35]

1 March 2022

Minister of Finance
Minister of Revenue

Changes to economic support for the Omicron outbreak

Purpose

1. This report seeks joint Ministers' agreement to changes to the economic supports for the Omicron outbreak. It includes changes to the COVID-19 Support Payment (CSP) and notes consequential impacts arising from changes to the Small Business Cashflow Loan Scheme (SBCS).

2. This report also seeks agreement to authorise and lodge a Cabinet paper for consideration at Cabinet on 7 March 2022. It also seeks the agreement to submit an Order in Council to the Executive Council activating the second and third CSPs.

Context and background

3. Cabinet agreed (CAB-22-MIN-0030) to a further business support during this phase of this Omicron outbreak. It agreed to focus on assisting firms with cashflow pressures by progressing amendments to the SBCS and to a series of fortnightly CSP payments targeting sectors experiencing severe revenue decline.

4. The attached Cabinet paper proposes the following changes to the *COVID-19 Support Payments Scheme (Omicron Outbreak) Amendment Order 2022*:

    4.1 Activates the second and third payment, for 14 March and 28 March;

    4.2 Ensures recipients of the Cultural Sector Emergency Relief Fund: Grant for Self-Employed Individuals will be eligible for the second and third CSPs;

    4.3 Includes the alternative comparator period (5 January 2021 – 15 February 2021) agreed by Joint Ministers (IR2022/073 refers) and amends the COVID-19 Vaccine Certificate (CVC) declaration to allow for the 2021 comparator period;

    4.4 Sets the affected revenue period for the CSPs.

5. The Cabinet paper also requests additional funding for the CSP appropriation from the COVID-19 Response and Recovery Fund (CRRF) to cover the costs of the CSP Scheme.

COVID-19 Support Payment Scheme

6. Cabinet agreed to a CSP Scheme being declared in relation to the business circumstances arising from the effect of the public health measures (including the COVID-19 Protection Framework- Red setting) and the rapid increase in COVID-19 in the New Zealand community.

7. To be eligible for the first CSP, businesses need to demonstrate that their income is 40% lower in a 7-day period any time from February 16 (the affected revenue period), compared to a typical 7-day period between 5 January 2022 and 15 February 2022 (the comparator period). Since making that decision, Joint Ministers have agreed to alter the scheme by setting an additional comparator period for the

payment, between 5 January and 15 February 2021 (IR2022/073) which will be reflected in the Order in Council.

Ministry of Culture and Heritage emergency grant

8. The CSP Order currently excludes recipients of the Ministry of Culture and Heritage grant for self-employed individuals, made under the Cultural Sector Emergency Relief Fund. Officials recommended this because the quantum and coverage of the CSP is similar to the emergency grant and therefore applicants should not be able to receive both. However, following the decision to have multiple CSPs, officials indicated they would work to ensure that recipients of the Ministry of Culture and Heritage one off emergency grant are able to apply for CSP payments 2 and 3.

9. To make this change, subject to agreement by Cabinet, an amendment is required to the Order in Council.

Affected revenue period

10. The affected revenue period refers to the period within which businesses can select seven consecutive days of affected revenue to demonstrate their revenue decline (by comparing them to seven days in the comparator period). The affected revenue period for CSP started when a part of New Zealand moved to phase two of the Omicron response (11:59pm 15 February).

11. Joint Ministers previously agreed that the affected revenue period for CSPFEB22 be set for a period of six-weeks (IR2022/059). Officials initially recommended a six-week affected revenue period if there was only one CSP. However, with multiple CSPs we initially recommended it to be left open ended so officials could have the time to work through an appropriate end date.

12. Joint Ministers have indicated the first CSP would be open for at least six weeks. We recommend that a six-and-a-half-week period should be used for the multiple CSPs. This is to allow the affected revenue period to last exactly one week after the applications open for third CSP, and not end mid-way through a week.

13. There are two options to set the affected revenue periods for the CSP scheme.

14. Officials preferred option would be to set specific affected revenue periods for each payment. This could be done as follows:

    14.1 CSP 1: 16 February – 4 April

    14.2 CSP 2: 7 March – 4 April

    14.3 CSP 3: 21 March – 4 April

15. This option would mean each affected revenue period starts at least 7 days before applications open for each payment. This is the same approach as the previous Resurgence Support Payments in 2021, and businesses should be familiar with this approach. This option also reinforces that to access the CSP the revenue decline should be sustained.

16. However, this does means that if the economic landscape improves, then some businesses may not be eligible for the third CSP as that affected revenue period is limited to only a two-week period.

17. The other option is to have the same six-and-a-half-week period for all three CSP payments. This would allow applicants to select a seven-day period between 16 February and 4 April for each payment. Applicants would be able to select a different, or the same, affected revenue period for each payment at the time of application.

18. Under both options, businesses can select a single seven-day period for all three payments. Our preferred option limits this, although if a business experiences the necessary revenue decline from 21 March to 4 April, they will be eligible for all three payments. Under both options, the affected revenue period will end on 4 April, and applications will remain open for one month after that date.

Additional comparator period

19. Joint Ministers agreed to making available an additional comparator period between 5 January and 15 February 2021. To make this option available, the Order in Council needs to be amended. Additionally, the eligibility criteria relating to compliance with the COVID-19 Vaccine rules should be amended.

20. This eligibility requirement will need amending as it is not possible to be CVC compliant in the new 2021 comparator period because the CVC rules were not in existence at the time.

CSP funding shortfall

21. The total cost of the CSP is closely tied to the severity of the impacts of Omicron and the changes of consumer behaviour in response to the Omicron outbreak. Therefore, Treasury has expressed low confidence in its ability to forecast the demand on the CSP.

22. Cabinet noted that the current funding for the CSP may not be sufficient, and that officials will monitor the uptake of the first payment and report back to Cabinet if there is projected to be a funding shortfall (CAB-22-MIN-0030).

23. The uptake of the first CSP payment has been high during the first couple of days of being opened for applications. As of 1pm on 1 March Inland Revenue had received 29, 851 applications totalling $146m.

24. Based on this rate of uptake, each CSP payment is likely to be at or surpass the upper bounds of Treasury's estimates for the CSP ($260m to $300m per payment).

25. The CSP appropriation has enough funding for the first payment but not subsequent payments and there is projected to be a large shortfall.

26. The draft Cabinet paper requests an additional $400m from the CRRF and recommends that Joint Ministers have the delegated authority to draw down an additional $100m from the CRRF, if required.

Small Business Cashflow (Loan) Scheme

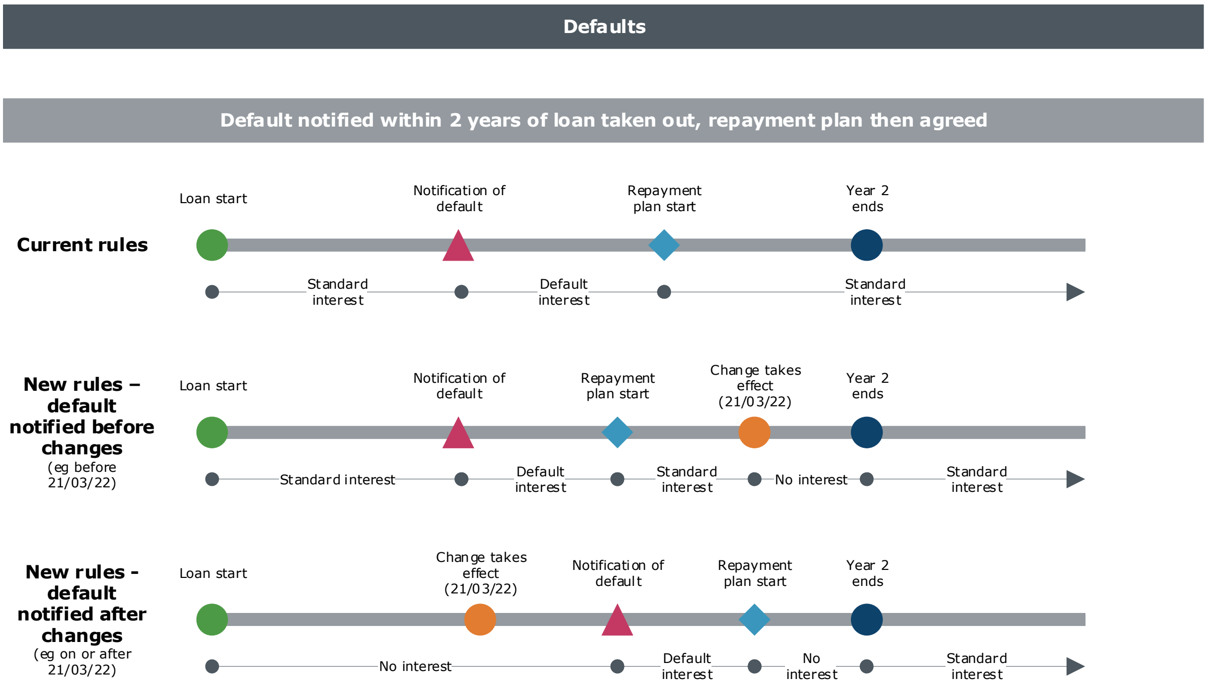
27. Cabinet agreed a 'top up' loan should be created for firms who have already taken an SBCS loan to access additional funding. The additional 'top up' base payment will also be available for firms who have so far not taken an SBCS loan (CAB-22-MIN-0030). Cabinet also agreed that instead of the interest accruing but being supressed for two years, that it be removed entirely (for that period) so interest only starts accruing from the beginning of year three of the loan, unless there has been an event of default.

28. The decision to remove interest for the first two years has consequential impacts on how standard and default interest operates for existing borrowers that have already defaulted in the first two years and where defaults are actioned prior to 21 March. There are some situations where interest will still need to apply, because it has already been charged (and cannot be removed without an amendment to the Tax Administration Act 1994). In the case of interest that has already been charged to a loan, Inland Revenue is limited in its ability to write off interest except for example, in the case of serious hardship.

29. Interest is only charged to existing borrowers for the first two years who have not repaid the loan or have defaulted on the loan. In this case, they are charged standard interest (3%) from the date the loan starts until the date they are notified of default and repayment is demanded. They are then charged default interest (currently 10%) until the loan is repaid in full or the event of default is remedied to the Commissioner's satisfaction (a repayment plan is entered into). They are then charged standard interest for the remainder of the life of the loan.

30. The borrowers in that circumstance will already have had the interest charged on their account, and therefore Inland Revenue cannot remove the interest. However, on the date these changes come into effect, Inland Revenue will contact these borrowers to enter into a new repayment plan so they will be charged a rate of zero percent going forward until the two-year period is reached. This will be done by amending the agreed repayment plan with the borrower.

Figure One: How the default rules will work in practice



31. The alternative case of default is when the borrower was never eligible for the loan. In that case, they are charged default interest from the first day until they enter repayment plan. Under the old rules they were charged 3% following the date of repayment plan. Following 21 March, this will be zero percent when they enter the repayment plan until they reach the two-year period.

32. The timing of the announcement will impact those that receive a default notification between now and 21 March, as these borrowers may have an expectation to not be charged interest. If a borrower is notified of their default between the announcement date and the date the system changes take effect, they will be subject to the old rules and therefore have interest charged on their account (as set out above) until the changes take effect. Inland Revenue will endeavour to minimise this occurring.

33. In finalising the Terms and Conditions of the top-up loan and new interest free period, officials have made decisions on how the loan should operate in accordance with the purpose of the scheme. Officials can provide these decisions in further detail if that is the Ministers' preference.

Next steps

34. Officials will prepare an Order in Council with the Parliamentary Counsel Office to amend the CSP scheme.

35. This Order will be submitted to Cabinet for their consideration on 7 March 2022. Following Cabinet agreement, the changes will be implemented when the second CSP applications open on 14 March 2022.

Recommended action

We recommend that you:

36. **note** that joint Ministers' have agreed to making available an additional comparator period between 5 January and 15 February 2021;

    Noted Noted

37. **agree** to amend the current CVC requirement so that applicants using the 2021 comparator do not need declare they were CVC compliant in that comparator period

    Agreed/Not agreed Agreed/Not agreed

EITHER

38. **agree** to set the affected revenue period for all CSP payments for a six-and-a-half-week period, starting 16 February to 4 April 2022;

    Agreed/Not agreed Agreed/Not agreed

OR

39. **agree** to set three discrete affected revenue periods for each CSP payment as follows (preferred):

    39.1 CSPFEB 1: 16 February – 4 April 2022

    39.2 CSPFEB 2: 7 March – 4 April 2022

    39.3 CSPFEB 3: 21 March – 4 April 2022

    Agreed/Not agreed Agreed/Not agreed

40. **agree** that recipients of the Ministry of Culture and Heritage one off emergency grant for self-employed individuals are able to apply for payments two and three;

    Agreed/Not agreed Agreed/Not agreed

41. **agree** to seek Cabinet's agreement to allocate $400m from the CRRF to the CSP appropriation and delegated authority for Joint Ministers to draw down an additional $100m from the CRRF, if required;

    Agreed/Not agreed Agreed/Not agreed

42. **note** that an Order in Council is required to amend the CSP scheme to implement changes outlined in this report;

    Noted Noted

43. **agree** to amend the COVID-19 Support Payments Scheme (Omicron Outbreak) Order 2022 to bring into effect decisions made in recommendations 37-40;

Agreed/Not agreed Agreed/Not agreed

44. **authorise** and **lodge** a Cabinet paper, to implement the required changes to the CSP scheme, for consideration by Cabinet on 7 March 2022;

Authorised and lodge

Small Business Cashflow Loan Scheme

45. **note** that once the new interest treatment goes live the system will cease charging standard interest (3%) rates for the first two years of the loan for those who have defaulted on their SBCS loan. These firms will pay the default interest rate (10%) from the time they are notified they are in default until they speak to Inland Revenue and agree to a payment arrangement.

Noted Noted

46. **note** if the borrower was never eligible for the loan, they are charged default interest from the first day until they enter repayment plan, and then 3% from that point. Following the go live date, a borrower who was never eligible for the loan will be charged the default rate (10%) until they enter a payment plan, and will then be charged 0% until the end of the two year interest free period.

Noted Noted

47. **note** some firms have already had interest charged as a result of defaulting on their SBCS loan and that this interest cannot be removed

Noted Noted

48. **note** some firms may receive notices of default before the interest rate changes, but after the announcement. Inland Revenue will work to minimise these cases.

Noted Noted

Jean Le Roux
Manager
The Treasury

Carolyn Elliott
Policy Lead
Inland Revenue

Hon Grant Robertson
Minister of Finance
/ /2022

Hon David Parker
Minister of Revenue
/ /2022