NZ Wage Subsidy Scheme (& SBCS Loan Scheme):
Expanded for high growth companies and some pre-revenue R&D businesses
14 May 2020

The NZ Wage Subsidy Scheme has been expanded to help "high growth businesses" and some pre-revenue R&D businesses that were previously ineligible because either:

- their pre-Covid-19 year-on-year growth has been so good they couldn't establish a 30% decline in revenue versus the same month 1 year ago (even though they have suffered 30% declines when compared to a more recent month); or
- they are R&D focused and had no revenue, so can't establish a 30% decline in revenue.

Updated Wage Subsidy Scheme declaration

The expanded Wage Subsidy Scheme declaration is here.

The two key expansions are found in:

- The third bullet point of the eligibility criteria, for "high growth businesses"; and
- New footnote [3] at the end of the declaration for certain pre-revenue R&D businesses.

Expansion for "high growth business"

"High growth business" no longer need to establish a 30% monthly revenue decline compared to the same month last year.

Under the expanded scheme, "high growth businesses" are eligible if they can show a 30% monthly revenue decline against a reasonably equivalent month (as a result of Covid-19). E.g., April 2020 versus February 2020 might suffice.

This is the same test that applies to start-up businesses operating for less than 1 year.

Comparing revenue against a more recent month than 12 months ago will help many growth companies qualify for the Wage Subsidy Scheme.

This is because under the "12 month" test, a 30% monthly revenue decline compared to the same month last year for a high growth business required a massive revenue reduction from current/expected revenue (often 60%+) to be eligible.

We applaud this expansion, which should help many NZ high growth businesses and their employees.

What is a "high growth business"?

The updated "declaration" states a "high growth business" is a business that has experienced a significant increase in revenue (prior to Covid-19).

There is no further guidance on how significant "significant" needs to be.

It seems clear that the intent is to capture businesses that had experienced month-on-month growth in a pre-Covid-19 world of a magnitude that means, even though they have suffered 30% revenue declines in revenue in recent months, they haven't been eligible for the Wage Subsidy Scheme when looking back at the same month last year.

Best practice will be to carefully document your company's prior 'significant revenue growth' in case of a subsequent audit.

Expansion for pre-revenue R&D businesses

The Wage Subsidy Scheme has been expanded for pre-revenue R&D businesses too; although how to qualify under the relevant expanded criteria is less clear.

Hidden in new footnote 3 of the Wage Subsidy Scheme declaration is the possibility to include a fall in projected 'capital income' for the purpose of calculating a 30% revenue decline.

It is understood that a fall in projected 'capital income' is intended to mean a fall in projected capital funding e.g., third party investment (rather than "income").

Businesses who can use a 30% decline in projected capital funding (as opposed to revenue) are limited to businesses that:

- have had no revenue (which excludes seed or venture capital, or Government funding); and
- are recognised by Callaghan Innovation as a legitimate research and development start up business.

This limits the applicability of this expansion to truly zero revenue organisations. This may exclude many R&D businesses that have had minimal income, e.g., from pilot schemes. The Government's assumption seems to be that if a business has had some revenue, then the usual '30% decline in revenue' eligibility criteria apply.

It also limits the applicability of this expansion to R&D start-ups recognised by Callaghan Innovation. It is understood that this is intended to cover businesses:

- that are Callaghan Innovation "customers" (e.g., R&D grant and R&D Tax Incentive recipients);
- Tech incubator startups;
- Startups that have engaged Callaghan Innovation research and technical services;
- Startups that have done, or were signed up, for Callaghan Innovation's Innovation Programmes; and
- Startups who have joined one of Callaghan Innovation's international missions.

If in doubt, businesses should contact Callaghan Innovation to get confirmation that they are recognised by Callaghan Innovation as a legitimate research and development start up business.

Small Business Cashflow Scheme (SBCS) Loans

These expansions are doubly important because eligibility for the Wage Subsidy Scheme is a pre-requisite for accessing Inland Revenue's recently announced Small Business Cashflow Scheme (**SBCS**) Loan (regardless of whether you've taking the Wage Subsidy or not).

Under the SBCS, eligible businesses (50 or fewer full-time-equivalent employees) 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 is 3% over a 5-year term, and interest will not be charged if the loan is fully paid back within one year.

More information, and how to apply, can be found here. SBCS loans are open for application until 12 June 2020.