

COVID-19 modified wage subsidy – 27 March Update

Updates and modifies the earlier COVID-19 wage subsidy and leave schemes directly from Business.govt.nz website

The COVID-19 wage subsidy scheme has been modified. This is to help businesses that need to shut down under Alert Level 4 pay workers for an extended period of time.

The modified wage subsidy scheme will support employers and their staff to maintain an employment connection and ensure an income for affected employees, even if the employee is unable to actually work any hours.

Applications for the modified wage subsidy scheme will be open until New Zealand moves down from COVID-19 Alert Level 4. Applications can be made on the [Work and Income website \(external link\)](#).

The wage subsidy scheme:

- supports **employers** adversely affected by COVID-19, so that they can continue to pay their employees
- supports **workers** to ensure they continue to receive income, even if they are unable to work.

Scope

The modified wage subsidy scheme is available to all businesses adversely affected by COVID-19 including:

- self-employed
- contractors
- sole traders
- registered charities
- incorporated societies
- post-settlement governance entities.

The scheme excludes state sector organisations.

The aim of the scheme is to provide sufficient support to enable people to stay connected to their jobs, and continue to receive income now that we have moved to an Alert Level 4 shut down.

Eligibility

Employers will be eligible where they have a 30% revenue drop attributable to COVID-19.

The scheme provides these businesses with subsidies for any named employees (including any essential workers employed by affected employers).

Before receiving a subsidy, employers must take measures to manage the implications of COVID-19 on their business. These measures might include, but are not limited to, talking with their banks and drawing on internal cash reserves.

To be eligible for the wage subsidy businesses must declare that they:

- have had a 30% revenue drop attributable to COVID-19
- will retain named employees for at least the duration of the grant (12 weeks)
- will pay named employees, at a minimum:
 - for any work they do at their normal rates
 - at least 80% of income where reasonably possible (for employees working reduced hours while self-isolating)
 - the full subsidy received for each named employee, where their pay is below the subsidy rate.

Subsidy rates

Payment rates under the modified wage subsidy scheme are unchanged from the original COVID-19 leave and wage subsidy schemes. They are:

- \$585.80 (gross) per week for full-time employees, where full-time is 20 hours or more per week
- \$350 (gross) per week for part-time employees, where part-time is less than 20 hours per week.

Wage rates for employees

Employers are expected to pay their employees:

- their usual wages or salary as per employment agreements, OR if this is not possible
- at least 80% of their usual wages or salary, where it is reasonably possible to do so, OR if this is not possible
- pay the employee for every hour worked based on their usual wage rates or salary.

If the wages or salary paid for the hours worked are below the amount of the subsidy provided for that employee, employers must pay the employee the full subsidy.

For examples of calculating wages for employees in different circumstances, please see the [case studies](#) at the end of this page.

Payment frequency

The subsidy will be paid as a lump sum and covers 12 weeks per employee. This is consistent with applications paid to date.

Employers can pass on the subsidy and additional wages through their usual pay cycles, or at other intervals.

It is recommended that any changes to the frequency of salary and wage payments from usual practice be discussed with employees as this may have adverse tax implications for employees.

Duration

Applications for the scheme will be open for the duration of COVID-19 Alert Level 4.

The latest information on New Zealand's COVID-19 Alert Levels is available at [Unite against COVID-19 \(external link\)](#).

Applications

Applications for the original wage subsidy and COVID-19 leave schemes have closed at 3pm Friday 27 March 2020. Applications are open for the modified wage subsidy scheme.

Applications can be made via the [Work and Income website \(external link\)](#). Work and Income will verify information provided in applications with Inland Revenue.

Tip: We recommend that employers ensure their IR details are up to date before they apply – you can check online on the [Inland Revenue website \(external link\)](#).

Please keep in mind that Work and Income will begin processing applications immediately after the modified scheme opens. COVID-19 is an unprecedented situation and Work and Income is experiencing an extremely heavy demand for its services. We ask that you are patient. Work and Income will process and approve applications as quickly as possible.

Essential businesses

Essential businesses that are required to remain open during the Alert Level 4 period will also be eligible for the scheme if they have had a revenue drop of 30%, which means they require support to pay or retain named employees.

A list and guidance about essential businesses is available at [COVID-19.govt.nz](#).

[Essential businesses \(external link\)](#) — [COVID-19.govt.nz](#)

Employers who have already applied under the original wage subsidy scheme

If a business has already received the original wage subsidy lump sum, they are required to continue to use that funding to pay employees for the full 12-week duration as agreed to in the initial application.

Pending applications made prior to 3pm Friday 27 March 2020 will be assessed against the original criteria of the wage subsidy scheme. Only applications received from 4pm on 27 March 2020 will have new criteria and obligations applied.

The original scheme was capped at \$150,000 per business, which meant that some larger businesses couldn't claim for all their workers, but this cap has been removed. There have been no further modifications to this criteria which means the modified scheme is also uncapped.

Businesses can make new claims for any employees that they did not apply for under the original scheme.

Employees who resign after their employer receives the wage subsidy funding

If an employee voluntarily ends their employment relationship (that is, they resign) the employer must notify Work and Income and will not be entitled to further subsidies for that named employee.

Transition out of Alert Level 4

The Government is currently considering what further changes to the scheme might be appropriate when we move out of Alert Level 4.

Impact on Work and Income benefits

Most employees are likely to be better off under the modified wage subsidy scheme than they would be on Work and Income benefits, however this depends on their personal circumstances.

As always, people can use the [Check what you might get \(external link\)](#) calculator from the Ministry of Social Development to check what additional assistance they may be entitled to. This includes supplementary assistance such as the accommodation supplement, temporary additional support, and other one-off assistance payments.

Cost of the scheme

Indicative estimates of the costs of the modified wage subsidy scheme are between \$8 and 12 billion for grants that cover 12 weeks, based on uptake between 50% and 80% of eligible firms and employees.

Tax treatment - Businesses

The modified wage subsidy scheme, and the previous COVID-19 leave and wage subsidy schemes, are considered excluded income to businesses and are also GST exempt. When passed on as wages, businesses don't get a deduction for income tax purposes.

Tax treatment - Individuals

Payments to employees under the consolidated wage subsidy scheme, and the previous COVID-19 wage subsidy and leave schemes, are wages. Therefore, they are subject to standard deductions like PAYE, ACC levies, KiwiSaver contributions and student loan repayments.

Employers can pay their employees as per their usual pay cycles, or at other intervals as agreed with the employee.

Employers must discuss any likely changes to wage payment intervals with employees, as these may have adverse tax implications for employees.

Case study

Non-essential business + Minimum waged worker

James is a barista at a Wellington café. James earn the minimum wage. The café is closed for the lockdown and has had a 30% loss in revenue. James' employer cannot afford to pay any wage to James, but wants to keep him on. James does not want to use his annual leave entitlements.

Case study

Able to do some work from home + Full-time worker

Sam is a civil engineer. He usually works 40 hours per week at \$30 per hour, with a usual gross income of \$1200 per week. The business is non-essential and closed for the lockdown and has had a 30% loss of revenue. Sam can do some work from home over this period. He works 30 hours per week for the duration of the Alert Level 4 lockdown period.

Case study

Non-essential business + Can do some work from home

Phil is a HR advisor in a medium-sized business and works full time. The business is non-essential and closed for the lockdown and has experienced a 30% loss of revenue. Phil can do some work from home. He does 8 hours per week. His hourly rate is \$25 per hour.

Case study

Non-essential business + Unable to work

Craig is a waiter at a successful restaurant chain that also needs to close during the lockdown. Craig was getting paid \$1,000 per week. Craig's employer has committed to paying full wages to their staff as they know that such workers will be in demand as the lockdown ends. The restaurant has suffered a 30% loss in revenue due to COVID-19.

Case study

Essential business + Able to work

Steve is an essential services worker, ensuring certainty of electricity supply. Steve is really busy, working his normal hours and getting paid at his normal rate, and his business has not been affected by COVID and does not require support to pay or retain its staff.