

To all our valued clients

We trust you have all survived lockdown in a relatively sane fashion and are looking forward to at least some limited business activity for most from next week. The purpose of this newsletter is to provide an update of business/tax changes since our previous newsletter, plus also update in regard to our services at Alert Level 3.

We remain committed to supporting our clients and encourage you to contact us for any assistance required.

Blackburne Group Services

Under Alert Level 3 we can return to office work where it is not possible to undertake work from home, provided appropriate safety protocols are established. Accordingly we anticipate the bulk of the team will be available as from 28 April. Given individual health/family circumstances we do not expect all staff will be as available as usual however. Other team members will assist, in the circumstances we request your understanding if there are any minor delays or inconveniences.

Alert Level 3 does not provide for contact with the public. Accordingly we are unable to provide on-site interviews but will be available as usual for phone/email and videoconference as necessary. Contactless drop-offs and pickups are allowed, accordingly while our front door will be locked, reception will be manned and the doorbell can be utilised to enable appropriate accessibility.

Given the timeframes we do not anticipate all March GST returns will be able to be filed by 7 May. Per the tax commentary below we do not anticipate issues with IRD regarding filing times/penalties.

Finally, on BGLP issues, lockdown caught us in the middle of a major change of our practice management system to Xero. Accordingly that has been pushed back a month. From your perspective what this means is that we are unable to invoice until that system is up and running, which is expected to be late May. So an unexpected short term benefit to your cash flows, although we can assure you time is still being recorded to be invoiced in due course! Those with existing outstanding amounts will have received March statements and we would be grateful if in the meantime you could make what payments are possible based on that statement. Thank you.

Government Updates

We provide below links to relevant government updates for your convenience and reference:

Changes announced in April 2020

- new support for SMEs: <https://covid19.govt.nz/latest-updates/government-announces-new-support-for-businesses/>
- help for companies facing insolvency: <https://covid19.govt.nz/latest-updates/help-for-companies-facing-insolvency/>

There is a lot of detail to absorb, not all of which will be relevant to your circumstances. We encourage you to read the detail as necessary but to assist we highlight below some of the most relevant issues for our clients with commentary where appropriate:

Tax

- Statutory tax deadlines. For businesses affected by Covid – 19 IRD discretion to accept late returns without penalties and interest has been greatly expanded and are expected to be applied generously.
- Tax loss continuity. Currently for tax losses to be retained 51% continuity of company ownership is required. Changes will allow moving from that continuity test to a "same or similar" business test. While a potentially advantageous loosening, we await the detail. This may be of assistance in some very specific client circumstances but we expect of limited benefit overall.
- Tax loss carry back. Allows for businesses with losses in the 2020 and 2021 years to offset those losses against relevant prior year profits. This would generate a tax refund for some, or all of provisional tax already paid. For taxpayers this will assist immediate cash flow. From a government income perspective while this is estimated to

cost an initial \$3.1 billion this is more a timing issue as the losses would have been available to taxpayers to offset against future profits at some time anyway.

Business support

- \$25 million over the next 12 months to support business consultancy assistance to small business (refer below).
- Tenants/landlords. An extension from the current 10 days to 30 working days before landlords can cancel a lease in arrears.
- Mortgaged land/goods. An extension from 20 to 40 working days for mortgage lenders to take action on arrears. And from 10 to 20 working days in regard to mortgaged goods
- Mortgage holiday of up to 6 month principal and interest for mortgage holders whose incomes have been affected by economic disruption from Covid – 19.
- Business Finance Guarantee Scheme (BFGS). This was reported on in our previous newsletter, with comment as to the lack of detail. Those details are now becoming clearer and we have been discussing with lenders. In summary lending of up to \$500,000 will be available but banks will apply normal lending criteria. In particular a business will need to justify the purpose behind the loan and ability to repay over a maximum 3 year timeframe. The loans cannot be used to refinance existing debt or for fixed asset purchases.

In effect this is for working capital purposes to assist business cash flow where business ability to restart has been impacted by the shutdown and has a reasonable prospect of remaining a long-term viable business. With the government guarantee of 80% indications from banks are they are adjusting their margins to reflect diminished risk with preliminary indications of interest rates in the order of 1 – 2%. But we stress business will still need to show a realistic ability to repay the core debt within the 3 year time frame.

Insolvency Relief

- "Safe harbour" for directors from sections 135 and 136 of the Companies Act. These sections deal with director liabilities should they continue to trade while a company is deemed to be insolvent. Directors decisions to keep on trading and/or take on new obligations over the next 6 months will not result in a breach if:
 1. in the good-faith opinion of the directors the company is facing or likely to face significant liquidity problems in the next 6 months as a result of the impact of Covid 19 on them or their creditors.
 2. The company was able to pay its debts as they fell due on 31 December 2019, and
 3. the directors consider in good faith it is more likely than not that the company will be able to pay its debts as they fall due within 18 months.
- "Debt hibernation". Effectively this is a simplification of the current creditors compromise arrangements so as to make it quicker and easier to implement necessary restructuring. The proposed regime is intended to:
 1. encourage directors to talk to their creditors with a view to putting together a simple proposal for putting the business into hibernation;
 2. allow for the directors to retain control of the company, rather than passing control to an insolvency practitioner;
 3. provide certainty to new creditors that they won't have to repay any money they receive, so as to encourage businesses to continue transacting with businesses in Business Debt Hibernation;
 4. be simple and flexible so that it can be enacted quickly, and businesses can readily apply it to their circumstances without having to obtain legal advice.

Key features of the proposal are that:

- directors will have to meet a threshold before being able to access the Business Debt Hibernation regime and putting a proposal to their creditors
- creditors will have a month from the date of notification of the proposal to vote on it, with the proposal going ahead if 50% (by number and value) agree
- there will be a one month moratorium on the enforcement of debts from the date the proposal is notified, and a further 6 month moratorium if the proposal is passed.

While a business is in debt hibernation it would be able to continue to trade, subject to any restrictions agreed with creditors as a condition of entering into it. Importantly, to encourage businesses to continue to deal with a company in debt hibernation, further payments or dispositions of property to third-party i.e. not related creditors would be exempt from the voidable transactions regime.

Regional Business Partners Network (RBPN)

- Blackburne Group has registered as an approved provider under the RBPN. This means we can apply for subsidies on client behalf around costs associated with planning for business issues arising from Covid – 19. There are limits on the funding available, both overall and per business but we anticipate any cost recovery will be of assistance to clients through these difficult times.
- To access the subsidy an individual business will need to visit the RBPN website and register. A regional RBP growth advisor will contact you to discuss your business and the application. We suggest you discuss that process with us so we may provide guidance to assist responding appropriately.

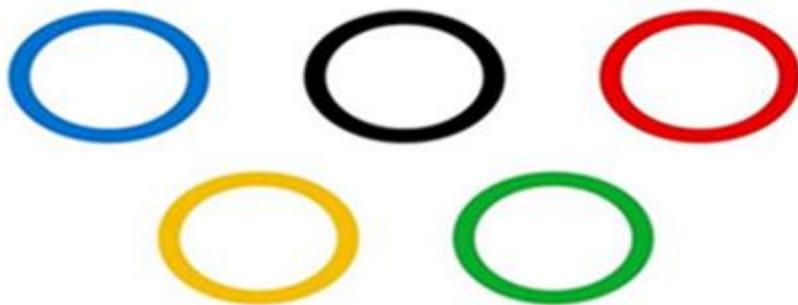
<https://www.regionalbusinesspartners.co.nz/>

General

In these difficult times for all business we encourage all our clients to communicate with their suppliers, and us, around any payment difficulties or support required so that we can all work together to obtain the best outcome.

The old maxim "cash is king" is particularly relevant in these times. We urge all clients to closely monitor cash flow, review outgoings and plan accordingly. And of course we are here to assist, hopefully with further assistance where appropriate through RBPN.

Take care, staysafe and be kind



OLYMPIC GAMES TOKYO 2020
[SAFETY DISTANCE]