

March 2020

Te Pataka nui ki tua o rangi

Sustaining and growing small business - a response
policy of the New Zealand Maori Council

COVID-19



A response to the
pressures facing Maori
small and medium sized
enterprise

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we must survive we must thrive

Matthew Tukaki,
Executive Director

The New Zealand Māori Council knows that COVID-19 has had a sustained impact on small and medium sized enterprise and we know that the pain they will face in the coming months will test them to the point of survival. As much as possible we need to ensure that as many of our small to medium sized business operators as possible remain open. For Māori the small business economy is also a significant portion of the overall Māori economy that, over recent years has been valued at more than \$40 billion dollars. Our people thrive in the trades and related services sector, retail, hospitality and tourism, agriculture, fisheries and horticulture. Māori small business permeates not just at the top of industry, we are active through-out the supply chain. But, in order to thrive and grow post the COVID-19 lockdown and into the future we must pause, reflect and look at ways and means by which we can survive.

The New Zealand Māori Council established a National Taskforce for Access to Industry and Employment eighteen months ago with a focus on ensuring we busted the poverty cycle with three core beliefs in mind. The first was to increase wage growth amongst our people, the second was to support and advocate policies for Māori small to medium enterprise and the third was to support and nurture our tamariki when it came to a digital future. Six months ago, we added a fourth pillar to focus on career transition for our people over the age of fifty and increased financial security post retirement. The fourth pillar became our landmark policy "Manaaki Pakeke" while the first three became "the future of work".

Today we add a fifth pillar about sustaining and growing small business or "Te Pataka nui ki tua o rangi". This comes from what I mentioned before – a combination of survival post COVID-19 and the inherent need to grow, grow fast, invest more and develop new markets. It is the New Zealand Māori Council's belief that sustaining and growing Māori small and medium sized enterprise will see jobs returning to our regions and provinces faster, of enabling those in the urban markets to maintain and grow but, more importantly to continue to instil hope, aspiration and opportunity across Te Ao Māori (the Māori world).

The following suite of policies have been designed, socialised and developed within the National Taskforce for Access to Industry and Employment and just as applicable to non-Māori small and medium sized business owners and operators – they have been designed that way because we are all in this together. In addition to these measures the New Zealand Māori Councils National Taskforce will convene a special online hui with related parties, sectors and organisations to discuss what additional support might be needed to get the following industries back up and running and on a pathway to growth post the lockdown:

- Māori Tourism
- Māori film and screen
- Māori digital and technology enterprises
- Māori retail (online)



Above

Matthew Tukaki, Executive Director of the NZ Maori Council and Chair of the National Taskforce for Access to Industry and Employment

"We must push back against the storm facing our small business & we must move from surviving to thriving. We must focus on hope, aspiration & opportunity"

Instant asset write-off policy for small business

That small business be able to instantly write off asset purchases which will also simplify depreciation. The asset purchase ceiling would be \$100,000 and target assets that would be purchased to both build and grow the business or purchase at a time when the rules around depreciation were a lot more flexible.

If you were running a coffee shop then this would be items such as coffee machines, electrical goods and so on.

If you were running a trade related business, it could extend to tools and equipment through to a vehicle. The policy would target businesses with turn over of \$100 million and less with the objective to create stimulus in the economy whereby cashflow and sales are shared across the small business sector.

It also frees up additional working capital. Purchases would each carry a ceiling limit of \$50,000 and extend to other items such as computer equipment and technology.

Currently most assets lose their value over time through wear and tear or becoming out of date. Depreciation is used to recognise this decrease in value and spread the cost of assets like computers and vehicles over their useful life. The new policy would not rely on a longer period of depreciation.

Trade services relief and support package

We know that a great many small businesses in New Zealand operate as sole traders and SME's between 1-5 employees and contractors and we also know that many include those working in the trades sector.

We also know that Māori are a significant part of this workforce. While we believe that each of these small businesses would be able to take advantage of the instant asset write off policy suggestion through the purchasing of tools and equipment we also know that they will be able to take advantage of the ongoing demand in the construction and infrastructure sectors.

However, their cashflow on restarting their businesses post the COVI-19 lock down will mean they still have tight cashflow even though there is demand. This also means that they are likely to employ but will still need cashflow for wages waiting for invoices to be paid. That is why we would like to see two things.

First is an additional wage subsidy program equal to 50% of the payroll for the first four weeks of each employee being returned to work. This will enable the small business to cashflow 50% of their overall payroll for the first four weeks until invoice revenue is restored. The second is to allow the small business to purchase tools and equipment on behalf of the worker and still take advantage of the instant asset write off.

Introduction of an interim small business accommodation supplement

We know that one of the major costs to running a small business is rent on a commercial premise. We also know that while many small business operators have not been able to operate the costs have still been adding up.

The addition of a small business accommodation supplement of between 25-35% of the rental cost per week for the first two months of restarting post COVID-19 lock-down would again provide operators to return to a balanced cashflow state by removing a portion of the weekly expense.

This would however be limited to small business such as the retail, trades and services sectors with turn over of less than \$20 million per annum with a ceiling of \$750 per week for a period of two months.

As part of this policy approach we would also advocate that small business owners and operators who are operating from a residential premise become eligible for the accommodation supplement paid out at the percentage of space utilised. This is like the write off provisions of office space as a deduction but in addition to it.

Establishment of a National Ombudsman for Small Business Office

Now small business struggle to cut through the red tape of dealing with rules, regulations and red tape. This includes dealing with new and current Government policies. This will be amplified as many struggle to survive the post COVID-19 lockdown period.

In addition, small business is often hidden within the larger Ministry of Business, Innovation and Employment and other Departments. Red tape and access to clear and concise information will remain an issue unless there is a coordinated response and a channel for complaints and grievances.

In addition, the office would work on developing new and innovative ways to reduce red-tape, support activities across Government and provide support through marketing materials, knowledge and information back to small business. It could also be a forum whereby taxation issues and complaints might be resolved, coordinate funded campaigns and so on.

Additional access to research and development concessions

For those organisations and small businesses in the tech and science sectors we are seeking broader access to refunds for research and development tax concessions in the 2019/20 financial year and also a review of the thresholds for businesses (startups included) and a review of quarterly assessments in the forthcoming financial year of 2020/21.

As the Inland Revenue Department is aware Technology companies, in particular, often have a long lead-in period in which they incur major expenditure before realising income from it. Under the previous law they could lose R&D tax deductions if they brought in new investors after their initial development stage.

While the more recent changes to Sections DB 26, DB 27, EE 1, EJ 20 and EJ 21 of the Income Tax Act 2004 better suit the growth cycle of technology companies and remove a barrier to R&D investment by allowing R&D tax deductions to be matched with related income – we are asking for additional flexibility. This includes the period of time from start-up where concessions can be claimed.

Export support and online technology package

At times of recession and crisis the one thing we must not lose sight of is our ability to grow and increase sectors into the export space. While New Zealand has traditionally done well the reality is many small business owners and operators struggle to find a voice or support because mostly it's our largest traders who gain the most traction.

While we do not suppose a lessening in support for bigger businesses to take advantage of export growth and new market entry opportunities, we can do more for small and medium enterprises. This includes a dedicated office within New Zealand Trade and Enterprise with a focus on further expansion of small business growth. In addition to this is greater investment into export potential for the following markets where an increase in the ranks of the middle classes is seeing greater spend on consumables and what otherwise would have been premium or luxury items:

- Indonesia
- India
- South and Central America

In addition to this is a package of support to move more of our small business online through an instant tax write off provision that could also see more be able to afford the services of a web designer who, in turn, would also benefit from increased cashflow. By moving more of our retail trade sector online we would escape the challenge the COVID-19 lockdown has thrown up that many are unable to trade because they do not have a web presence.

In addition to these measures would be support for Māori to also enter into Indigenous trade agreements with other first nations peoples such as Australia and Canada – in and by itself this measure could significantly increase the value of the Māori Economy and, over time, could work to decreasing the gap between revenue lost in the current financial year.

Added to that would be the establishment of a Māori Trade Commissioner to work with the Te Ao Māori small business and enterprise sector to further that aspiration.