

Economic Response to the Coronavirus

The government has had no choice but to chuck the economy under the bus to save Australian lives.

The current economic situation is making the GFC look like a kitten. With forced closures of business and isolation directives, it's difficult for consumers to spend money, if they were allowed out of the house. The knock on effect of these policies will see many people unemployed.

The government is spending a massive amount of money in an effort to support people that may lose jobs and businesses. This newsletter provides details on most of these initiatives.

Martel Wheatley will be working with clients through these challenging times. We are available to ensure our clients maximise all the government support available. We are also working with clients to ensure business cash flow decisions are made early and with confidence.

Big volatility brings big opportunity.

Support for businesses

Boosting Cash Flow for Employers

Timing of effect

First phase from 28 April 2020
Second phase from 21 July 2020

To help businesses retain staff, the ATO will provide up to \$100,000 to small and medium-sized businesses, with a minimum payment of \$20,000 for eligible businesses.

This is a targeted wages subsidy and administered via instalment activity statements.

Under the enhanced scheme, employers will receive a payment equal to 100 per cent of their salary and wages withheld (up from 50 per cent), with the maximum payment being increased from \$25,000 to \$50,000. In addition, the minimum payment is being increased from \$2,000 to \$10,000.

An additional payment is also being introduced in the July — October 2020 period. Eligible entities will receive an additional payment equal to the total of all of the Boosting Cash Flow for Employers payments they have received. This means that eligible entities will receive at least \$20,000 up to a total of \$100,000 under both payments.

Eligible businesses that pay salary and wages will receive a minimum payment of \$10,000, even if they are not required to withhold tax.

The payments will only be available to active eligible employers established prior to 12 March 2020.

See next page for detailed examples on how this initiative will benefit you.



Example 1: Sarah's Construction Business

Sarah owns and runs a building business in South Australia and employs 8 construction workers on average full-time weekly earnings, who each earn \$89,730 per year. Sarah reports withholding of \$15,008 for her employees on each of her monthly Business Activity Statements (BAS).

Under the Government's changes, Sarah will be eligible to receive the payment on lodgment of her BAS.

Sarah's business receives:

- A credit of \$45,024 for the March period, equal to 300 per cent of her total withholding.
- A credit of \$4,976 for the April period, before she reaches the \$50,000 cap.
- No payment for the May period, as she has now reached the \$50,000 cap.
- An additional payment of \$12,500 for the June period, equal to 25 per cent of her total Boosting Cash Flow for Employers payments.
- An additional payment of \$12,500 for the July period, equal to 25 per cent of her total Boosting Cash Flow for Employers payments.
- An additional payment of \$12,500 for the August period, equal to 25 per cent of her total Boosting Cash Flow for Employers payments.
- An additional payment of \$12,500 for the September period, equal to 25 per cent of her total Boosting Cash Flow for Employers payments.

Under the previously announced Boosting Cash Flow for Employers measure, Sarah's business would have received a maximum payment of \$25,000.

Under the Government's enhanced Boosting Cash Flow for Employers measure, Sarah's business will receive \$100,000. This is an additional \$75,000 to support her business and help her retain her staff.

Example 2: Tim's Courier Run

Tim owns and runs a small paper delivery business in Melbourne, and employs two casual employees who each earn \$10,000 per year. In his quarterly BAS, Tim reports withholding of \$0 for his employees as they are under the tax-free threshold.

Under the Government's changes, Tim will be eligible to receive the payment on lodgment of his BAS.

Tim's business will receive:

- A credit of \$10,000 for the March quarter, as he pays salary and wages but is not required to withhold tax.
- An additional payment of \$5,000 for the June quarter, equal to 50 per cent of his total Boosting Cash Flow for Employers payments.
- An additional payment of \$5,000 for the September quarter, equal to 50 per cent of his total Boosting Cash Flow for Employers payments.

If Tim begins withholding tax for the June quarter, he would need to withhold more than \$10,000 before he receives any additional payment.

Under the previously announced Boosting Cash Flow for Employers measure, Tim's business would have received a total payment of \$2,000.

Under the Government's enhanced Boosting Cash Flow for Employers measure, Tim's business will receive \$20,000. This is an additional \$18,000 to support his business.



Temporary relief for financially distressed businesses

The Government is temporarily increasing the threshold at which creditors can issue a statutory demand on a company and to initiate bankruptcy proceedings against an individual as well as temporarily increasing the time companies and individuals have to respond to statutory demands they receive. The package also includes temporary relief for directors from any personal liability for trading while insolvent, and providing temporary flexibility in the *Corporations Act 2001* to provide targeted relief from provisions of the Act to deal with unforeseen events that arise as a result of the Coronavirus health crisis.

The ATO will tailor solutions for owners or directors of business that are currently struggling due to the Coronavirus, including temporary reduction of payments or deferrals, or withholding enforcement actions including Director Penalty Notices and wind-ups

Increasing the instant asset write-off

Timing of effect

Deductions to be included in 2019/20 tax returns

The Government is increasing the instant asset write-off threshold from \$30,000 to \$150,000 and expanding access to include businesses with aggregated annual turnover of less than \$500 million (up from \$50 million) until 30 June 2020.

This will be for assets purchased from 12 March 2020 to 30 June 2020.

Backing business investment

Timing of effect

Immediately.
Deductions to be included in 2019/20 tax returns

The Government is introducing a time-limited 15 month investment incentive (through to 30 June 2021). Businesses with a turnover of less than \$500 million will be able to deduct 50 per cent of the cost of an eligible asset on installation, with existing depreciation rules applying to the balance of the asset's cost. This will only apply to assets not already written off under the \$150,000 threshold. The asset must be new.

Supporting apprentices and trainees

Timing of effect

Applications from early-April

The Government is supporting small business to retain their apprentices and trainees. Eligible employers can apply for a wage subsidy of 50 per cent of the apprentice's or trainee's wage for 9 months from 1 January 2020 to 30 September 2020. Where a small business is not able to retain an apprentice, the subsidy will be available to a new employer that employs that apprentice. Employers will be reimbursed up to a maximum of \$21,000 per eligible apprentice or trainee (\$7,000 per quarter).

Supporting the flow of credit

The Government, the Reserve Bank of Australia and the Australian Prudential Regulatory Authority have taken coordinated action to ensure the flow of credit in the Australian economy.

Support for immediate cash flow needs for SMEs

Under the Coronavirus SME Guarantee Scheme, the Government will provide a guarantee of 50 per cent to SME lenders to support new short-term unsecured loans to SMEs. The Scheme will guarantee up to \$40 billion of new lending. This will provide businesses with funding to meet cash flow needs, by further enhancing lenders' willingness and ability to provide credit. This will assist otherwise viable businesses across the economy who are facing significant challenges due to disrupted cash flow to meet existing obligations.

Quick and efficient access to credit for small business

The Government is cutting red tape by providing a temporary exemption from responsible lending obligations for lenders providing credit to existing small business customers. This reform will help small businesses get access to credit quickly and efficiently.



Supporting individuals and households

Income support for individuals

Timing of effect

First round from 27 April 2020
Second round from 13 July 2020

Over the next six months, the Government is temporarily expanding eligibility to income support payments and establishing a new, time-limited Coronavirus supplement to be paid at a rate of \$550 per fortnight. This will be paid to both existing and new recipients of Jobseeker Payment, Youth Allowance Jobseeker, Parenting Payment, Farm Household Allowance and Special Benefit.

These income support payments will also be available to our self-employed clients, such as sole traders. Sole traders will need to make a declaration that their business has been suspended or had turnover significantly reduced. See example 3.

The Government are also expanding the access and speeding up applications by:

- Expanding access to permanent employees who are stood down or lose their employment; sole traders; the self-employed; casual workers; and contract workers who meet the income tests
- Waiving the assets test
- Waiving the ordinary waiting time of one week
- Accelerating applications
- Removing application requirements such as proof of rental agreements and the need for appointments

Example 3: Chris the sole trader

Chris is a sole trader, running an architecture practice, specialising in home renovations. Chris' practice has been successful over the years, and he has been able to build up a reasonable amount of assets during his career, to a level that would ordinarily make him ineligible for an income support payment.

The economic downturn due to Coronavirus has adversely affected Chris' business, and his income has been reduced to zero.

Chris will be able to apply for the new JobSeeker/Coronavirus supplement and will not have his assets included as part of the eligibility assessment for the payment. He will also not be required to serve a Liquid Asset test Waiting Period, as that has been waived.

Chris is eligible for the Jobseeker payment and, as he is married, will receive:

- JobSeeker Payment partnered rate of \$510.80 per fortnight; plus
- Energy Supplement of \$7.90 per fortnight; plus
- Coronavirus supplement of \$550 per fortnight

This brings Chris' total fortnightly income support payment to \$1,068.70.

Temporary early release of superannuation

Timing of effect

Applications from mid-April

The Government is allowing individuals affected by the Coronavirus to access up to \$10,000 of their superannuation in 2019-20 and a further \$10,000 in 2020-21. Individuals will not need to pay tax on amounts released and the money they withdraw will not affect Centrelink or Veterans' Affairs payments.



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Payments to support households

Timing of effect	From 31 March 2020
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The Government is providing two separate \$750 payments to social security, veteran and other income support recipients and eligible concession card holders. The first payment will be made from 31 March 2020 and the second payment will be made from 13 July 2020. Around half of those that benefit are pensioners. These payments will help to support confidence and domestic demand in the economy. The second payment will not be made to those eligible for the Coronavirus supplement.

Recognising that many Australians have saved over their lives to support themselves in retirement, the Government is implementing two measures to support retirees in managing the impact of recent volatility in financial markets and the impact of low interest rates on their retirement savings.

Temporarily reducing superannuation minimum drawdown rates

Timing of effect	Immediately
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The Government is temporarily reducing superannuation minimum drawdown requirements for account-based pensions and similar products by 50 per cent for 2019-20 and 2020-21. This measure will benefit retirees with account-based pensions and similar products by reducing the need to sell investment assets to fund minimum drawdown requirements.

If you have any questions or wish to discuss anything in this newsletter, please do not hesitate to contact us.

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Reducing social security deeming rates

Timing of effect	From 1 May 2020
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On 12 March, the Government announced a 0.5 percentage point reduction in both the upper and lower social security deeming rates. The Government will now reduce these rates by another 0.25 percentage points.

As of 1 May 2020, the upper deeming rate will be 2.25 per cent and the lower deeming rate will be 0.25 per cent. The reductions reflect the low interest rate environment and its impact on the income from savings. The change will benefit around 900,000 income support recipients, including around 565,000 Age Pensioners who will, on average receive around \$105 more of the Age Pension in the first full year the reduced rates apply.



Please Note: Many of the comments in this publication are general in nature and anyone intending to apply the information to practical circumstances should seek professional advice to independently verify their interpretation and the information's applicability to their particular circumstances. Limited Liability by a scheme approved under Professional Standards Legislation.