

Economic stimulus for businesses

by Peter Kelly, Superannuation and Retirement Planning Specialist, Centrepoint Alliance

24 March 2020

In addition to providing a raft of benefits for individuals to help them weather the Coronavirus storm, the Government has legislated an extensive stimulus package has been announced for businesses. The package is designed to provide measures to support small and medium businesses and to improve business confidence.

The first phase of the package was announced on 12 March 2020 with a second, more substantial range of measures being announced on 22 March 2020.

Legislation covering these measures was passed by the House of Representatives and the Senate on 23 March 2020.

1. Boosting cash flow for businesses

Up to \$100,000, spread over two tranches, will be available to small and medium businesses with an aggregate turnover of up to \$50 million (based on the previous year's turnover), 'not-for profits', and charities that employ staff.

This stimulus payment is designed to help businesses remain in business and pay outgoings, such as rent and utilities, and retain staff.

The stimulus payment to each eligible business will be 100% of salary and wages withheld as reported under their activity statements, up to a maximum of \$50,000.

For businesses not required to withhold tax from employees' salaries – perhaps because employee's income is below \$18,200, they will qualify for the minimum payment of \$20,000 (paid in two tranches).

The payments are only available to eligible employers established before 12 March 2020.

The payment under the first tranche will be based on the tax withheld from employees' salaries and reported in the January to March, and April to June Business Activity Statements for businesses that lodge on a quarterly basis. For those that lodge on a monthly basis, the tax withheld in the March, April, May and June 2020 Business Activity Statements, will be used as the basis for determining the stimulus payment. However, to be consistent with quarterly lodgers, the first payment will be 300% of the tax withheld in the March 2020 activity statement.

The payment will be paid as a credit to the business on lodgement of their activity statements.

To maximise payments under the stimulus plan, retention of staff is critical factor. If staff are stood down and wages are not being paid, tax is not being withheld. Withheld tax is the basis for calculating the stimulus payment.

The second tranche of the stimulus payment will be made from 1 July and will be made in four payments, with each payment being 25% of payments made under the first tranche. For quarterly lodgers, each additional payment will be 50% of their *Boosting Cash Flow for Employers* payment.

Payments will be applied as a credit to the April to June, and July to September activity statements (for quarterly BAS lodgements) and to the June, July, August and September activity statements for monthly lodgements.

Example

Matthew runs a small business that employs five staff. His business was established before 12 March 2020. Activity statements are lodged monthly. He reports withholding \$9,500 tax from his employee's salaries each month. He retains all staff during the Coronavirus.

Under the stimulus package, he will receive a credit of the tax withheld as follows:

- March 2020 – credit of \$28,500 (\$9,500 @ 300%)
- April 2020 – credit of \$9,500
- May 2020 – credit of \$9,500
- June 2020 – credit of 2,500 (i.e. \$50,000 – (\$28,500 - \$9,500 - \$9,500))

As Matthew's business is entitled to the full \$50,000 stimulus payment, he will also be eligible to receive the following credits under the second tranche:

- June 2020 – credit of \$12,500 (i.e. 25% of \$50,000)
- July 2020 - credit of \$12,500
- August 2020 – credit of \$12,500
- September 2020 – credit of \$12,500

The business will receive the full \$100,000 entitlement under the measure.

If the tax withheld during the period March to June 2020 was less than \$50,000, the credit available would equal the tax withheld. However, in any case, the minimum \$10,000 credit would be available. If this occurs, each payment made under the second tranche would be 25% (or 50% for quarterly lodgers) of that paid under the first tranche.

For businesses that lodge activity statements on a monthly, the statement for each month is required to be lodged by (around 21st of the following month). For example, the activity statement for June 2020 is to be lodged by 21 July 2020.

Where the stimulus payment results in a refund position in Matthew's activity statement, the refund will be made within 14 days.

2. Supporting apprentices and trainees

As announced on 12 March 2020, the Government is to provide a wage subsidy of 50% of wages paid to apprentices and trainees during the period from 1 January to 30 September 2020. The maximum payable is \$21,000 per eligible apprentice or trainee (\$7,000 per quarter). Where an employer is unable to retain their apprentice or trainee and they are employed by another employer, the new employer will receive the subsidy.

To be eligible to receive the subsidy a small business must be employing less than 20 full-time employees and have apprentices and/or trainees that were employed before 1 March 2020.

Employers of any size and Group Training Organisations that re-engage an eligible out-of-trade apprentice or trainee are eligible to receive the subsidy.

Example

Sarah is an apprentice in a hair dressing salon that employs three staff. Her apprenticeship commenced in January 2020. Her employer is able to claim a subsidy of 50% of Sarah's wage.

Unfortunately, due to a downturn in business as a result of social isolation, Sarah is laid off in early May 2020.

Fortunately, Sarah resumes working with a large hair dressing salon that employs more than 20 staff.

While her new employer would not normally qualify for the apprentice and trainee subsidy due to their number of employees and the fact Sarah was employed by them after 1 March 2020, they will be entitled to receive the subsidy as Sarah meets the qualifications of an out-of-trade eligible apprentice or trainee.

Applications for the apprentice and trainee subsidy can be made from early April 2020 and final claims for payment will need to be lodged by 31 December 2020.

Additional information is available from:

- The Department of Education, Skills and Employment: www.dese.gov.au
- Australian Apprenticeships: www.australianapprenticeships.gov.au

Information on how to apply and eligibility can be obtained by contacting an Australian Apprenticeship Support Network provider.

3. Temporary relief for financially distressed businesses

A number of measures have been introduced that are designed to provide businesses and individuals with protection from creditor actions during the economic downturn that has resulted from the Coronavirus pandemic.

- a. The threshold at which creditors can issue a statutory demand on a company is currently \$2,000. This is to be increased to \$20,000.
- b. The statutory time for response to demand is to be increased from 21 days to six months.
- c. The minimum debt required for a creditor to initiate bankruptcy proceedings against a debtor (personal insolvency) is to be increased from \$5,000 to \$20,000.
- d. The time a debtor has to respond to a bankruptcy notice is to be temporarily increased from 21 days to six months.

- e. Where debtor declares their intention to enter voluntary bankruptcy, the period of protection when unsecured creditors are unable to take further action to recover debts is to be extended from 21 days to 6 months.

Each of the measures mentioned are temporary and will apply for a period of six months.

Rights to enforce debts against companies and individuals can still be pursued through the courts.

4. Directors personal liability

Directors are personally liable if a company trades while insolvent.

Under the measures announced, directors will be temporarily relieved from personal liability arising from insolvent trading for a period of six months.

However, debts incurred by a company are still due to be repaid.

Example

Eats Pty Ltd is a restaurant located in the city. The two owners and directors are Sam and Tiffany.

As a consequence of the State Government ordering a close down of all non-essential businesses, Sam and Tiffany are limited to providing take away meals and coffee. Their revenue drops significantly as a result.

They incur additional debts and are unable to meet their liabilities when they fall due.

Under the Corporations Act, the directors would be personally liable if the business took on additional debt without entering voluntary administration or liquidation.

The temporary relief concession granted by the stimulus package means that Sam and Tiffany can continue to operate their business and continue to incur debt until the crisis passes and business returns to normal.

Naturally the debts of the business will still need to be repaid.

5. Instrument making powers under the Corporations Act

On 23 March 2020, the parliament rose and is not scheduled to sit again for some months, possibly until August 2020.

As a consequence of social distancing and other restrictive measures brought about as a result of the Coronavirus, businesses may not be able to comply with the provisions of the Corporations Act.

To deliver regulatory certainty in these uncertain times, the Treasurer will be given temporary instrument-making power under the Corporations Act 2001 to temporarily amend provisions of the Act to provide relief from specific statutory obligations or to modify obligations.

The temporary relief will apply for six months from the date the Bill receives Royal Assent.

6. Instant asset write-off

Currently, small to medium businesses with an aggregated annual turnover of up to \$50 million can write off assets for tax purposes of up to \$30,000.

The first stimulus package announced on 12 March 2020 significantly increases the instant asset write-off provisions.

Businesses with an aggregated annual turnover of up to \$500 million can now write off assets of up to \$150,000. The instant asset write-off applies per assets for new and second-hand assets first used or installed ready for use by 30 June 2020.

The increase in the current threshold from \$30,000 to \$150,000 applies to assets purchased between 12 March and 30 June 2020.

From 1 July 2020, the instant asset write-off threshold will reduce to \$1,000 and will be restricted to businesses with an aggregated annual turnover of less than \$10 million.

Example

Carly is a professional photographer specialising in weddings and corporate assignments.

In September 2019 she purchased a new camera for \$10,000 and a new computer for photo editing for \$6,000. As a result of the pre-stimulus arrangement she is able to claim an instant write-off for both asset purchases, as they are under \$30,000 each, in the current financial year.

On 1 May 2020, Carly purchases a new van for her business valued at \$45,000. Due to the enhanced instant asset write-off, Carly is able to write off the full value of the vehicle against her tax in the current financial year.

7. Backing business incentive

The Government is introducing an investment incentive for businesses by offering accelerated depreciation deductions.

The initiative applies to businesses with aggregated annual turnover of less than \$500 million and will apply up until 30 June 2021.

It is available for new assets that can be depreciated under Division 40 of the Income Assessment Act 1997 acquired after 12 March 2020 and first used or installed by 30 June 2021.

The incentive entitles businesses to an immediate deduction of 50% of the cost of the eligible asset, with normal depreciation rules applying to the balance of the asset's cost.

8. Coronavirus SME Guarantee Scheme

The Scheme will provide lenders with a Government guarantee of 50% of amounts lent to small and medium size enterprises with aggregated annual turnover of less than \$50 million.

This will enable eligible SMEs to access additional funding for working capital to help them through the current crisis.

The guarantee will be provided to eligible lenders for loans issued on the following terms:

- Maximum loan size is \$250,000 per borrower,
- Loan term of up to three years, with an initial six month repayment holiday,
- The loans are granted on an unsecured basis.

The loans will be subject to lenders usual credit assessment however the eligibility for a 50% government-backed guarantee should increase the willingness of lenders to provide loans.

The Scheme is expected to commence in early April 2020 with new loans being available until 30 September 2020.

9. Quick and efficient access to credit

An exemption from responsible lending obligations for lenders providing credit to existing small business customers will be available for a period of six months.

This will apply to credit provided for business purposes including:

- New credit,
- Credit limit increases,
- Credit variations and restructures.

10. Assistance for the regions and sectors, and the airlines

The Coronavirus will have had a significant impact on regions and industries that derive their livelihoods from tourism, agriculture and education.

The Government plans to inject \$1 billion into new and existing programs designed to stimulate these sectors.

This will be a “work in progress” as the Government engages with affected sectors to identify opportunities to provide support.

Airlines have been especially affected by the Coronavirus.

The Government announced a \$715 million package designed to assist the airline industry.

Rather than a cash injection, the package will be delivered by way of relief from taxes and Government charges. In addition, commercial and aeromedical aircraft operators will be given relief from aviation fuel tax from 1 February 2020 for a period of eight months.

The domestic aviation industry will also receive relief from Airservices Australia charges from 1 February 2020 for eight months.

11. ATO administrative relief

The Australian Taxation Office (ATO) is offering administrative relief from certain tax obligations for businesses affected by the Coronavirus.

Eligible businesses will be able defer the payment of certain taxes for up to six months and those with pay as you go instalments, can vary them to zero for the March 2020 quarter. Furthermore, businesses can claim a refund of instalments made for the September and December 2019 quarters.

Enquiries can be directed to the ATO by calling 1800 806 218 or visiting the ATO's website www.ato.gov.au

This article is a summary of the changes announced by the Government on 12 and 22 March 2020 as part of their response to the Coronavirus pandemic.

Full details will continue to emerge in the coming weeks and months.

The information contained in this article is of a general nature only and may not take into account your particular objectives, financial situation or needs. Accordingly, the information should not be used, relied upon or treated as a substitute for personal financial advice. While all care has been taken in the preparation of this article, no warranty is given in respect of the information provided and accordingly, neither Centrepoint Alliance Limited nor its related bodies corporate, employees or agents shall be liable for any loss (howsoever arising) with respect to decisions or actions taken as a result of you acting upon such information.