

Weathering the storm:

the economic response to Coronavirus



Uncharted and Unprecedented Economic Territory

The coronavirus (COVID-19) outbreak has already brought considerable human suffering and major economic disruption. The **Australian economy** is reeling from the impact and it's expected to escalate in intensity in the coming months. As cases of COVID-19 continue to increase the Australian Government and Reserve Bank of Australia are working to soften the economic blow.



Contractions in Chinese trade are being felt globally, reflecting the rising role China plays in global supply chains, travel and commodity markets. As one of the **world's most China-reliant economies** the shockwaves of COVID-19 have already begun to hit with the Australian dollar plunging to its lowest level since October 2002. Depending on the severity of COVID-19 globally, economic modeling is forecasting a decline in Australia's GDP of between 2% and 7.9% in the first year alone.



Stock markets are continuing to set **unwanted records** with the ASX200 dropping over 33% since February including the largest single-day fall on record with the benchmark index closing 9.7% down on 16 March 2020. In the past week at least 28 companies listed on the ASX withdrew their profit forecast with revised downgrades expected to be issued as the impact of COVID-19 begins to hit the bottom line.



The Government continues to act decisively to support the Australian economy. On 22 March 2020, **Prime Minister Scott Morrison announced an additional \$66bn in economic stimulus packages targeted to Australian businesses and households**. Considering the first round of stimulus and the Reserve Bank's own measures to boost financial markets and ease restrictions on credit, the total value of assistance packages announced to date is worth a combined \$189bn.



Recently, the Reserve Bank of Australia announced a \$105bn boost for the financial system and **lowered the official interest rate to 0.25%** which it expects will remain unchanged until Australia's unemployment rate drops back toward 4.5% and inflation is between 2-3%. This is part of a coordinated effort by the world's central banks to stimulate global markets with the United States Federal Reserve, the Bank of England and the Reserve Bank of New Zealand all recently setting their official cash rate at 0.25%.

A summary of the Federal Response

Aim	What	When
Support for Businesses	<p>Boosting cash flow for employers - Up to \$100,000 to eligible small and medium enterprises, and not-for-profits with a minimum payment of \$20,000. Businesses will receive a payment equal to 100% of their PAYG withheld, delivered as a credit in their BAS.</p> <p>Administrative relief by the ATO for some taxation obligations – The ATO is allowing for a number of variations to reporting obligations to ensure business is able to maintain working capital.</p> <p>Supporting apprentices and employees - Eligible employers can apply for a wage subsidy of 50% of the apprentice’s or trainee’s wage paid during the 9 months from 1 January to 30 September 2020.</p> <p>Increasing the instant asset write-off (IAWO) - The IAWO is being increased from \$30,000 to \$150,000 and expanding to include all businesses with aggregated turnover of less than \$500m.</p> <p>Backing business investment - A tax deduction of 50% of the cost of an eligible asset on installation, with existing depreciation rules applying to the balance of the asset’s cost.</p> <p>Temporary relief for financially distressed businesses - Temporarily providing higher thresholds and more time to respond to demands from creditors and providing temporary relief from directors’ personal insolvent trading liability.</p>	<ul style="list-style-type: none"> • Payments from 28 April & 21 July 2020. • Immediately applicable • Applications open from early April • Immediately, with deductions to be included in 2019-20 tax returns. • Immediately, with deductions to be included in 2019-20 tax returns. • Immediately applicable
Support for Individuals & households	<p>Income support for individuals - Expanding eligibility to income support and establishing a new, time-limited Coronavirus supplement to be paid at a rate of \$550 per fortnight.</p> <p>Payments to support households - Provide two rounds of \$750 payments to those eligible.</p> <p>Temporary early release of superannuation - Enable individuals and sole traders directly impacted by the economic consequences of the Coronavirus to access up to \$10,000 of their super. tax-free.</p> <p>Providing support for retirees & welfare recipients - Temporary reduction in superannuation minimum drawdown requirements & a decrease in social security deeming rates.</p>	<ul style="list-style-type: none"> • Commencing 27 April 2020 • Payments from 31 March & 13 July 2020. • Applications from April 2020 • Drawdown rates – Immediately • Social security deeming – From 1 May 2020
Supporting the Flow of Credit	<p>Government support for immediate cash flow needs of SMEs - Providing a Government guarantee of up to 50% to SME lenders for new unsecured loans to be used for working capital.</p> <p>Australian Office of Financial Management - \$15bn to invest with small lenders, including Non-ADIs and smaller ADIs.</p> <p>Reserve Bank of Australia Support - A reduction to the cash rate to 0.25% and term facility of at least \$90bn to banks to lend, with incentives to lend to SMEs.</p>	<ul style="list-style-type: none"> • Commence by April 2020 • Currently being considered and implemented. • Immediately applicable

The Details



Support for Businesses

Aim	What	Eligibility	When
Boosting cash flow for employers	<p>The Government is providing up to \$100,000 to eligible SMEs, and not-for profits (including charities) that employ people, with a minimum payment of \$20,000. Businesses will receive a payment equal to 100% of their PAYG withheld, delivered as a credit in their BAS.</p>	<ul style="list-style-type: none"> • SMEs and NFPs with aggregated annual turnover under \$50m, which is based on prior year turnover, that employ workers will be eligible. • Eligibility will generally be based on prior year turnover. To qualify for the additional payment, the entity must continue to be active. 	<ul style="list-style-type: none"> • Payments from 28 April 2020. • Additional payments from 21 July 2020.
Supporting apprentices and employees	<p>Eligible employers can apply for a wage subsidy of 50% of the apprentice's or trainee's wage paid during the 9 months from 1 January 2020 to 30 September 2020.</p> <p>Where a small business is not able to retain an apprentice, the subsidy will be available to a new employer.</p>	<ul style="list-style-type: none"> • The subsidy will be available to small businesses employing fewer than 20 full-time employees who retain an apprentice or trainee. • The apprentice or trainee must have been in training with a small business as at 1 March 2020. • Employers of any size and Group Training Organisations that re-engage an eligible out-of-trade apprentice or trainee will be eligible for the subsidy. 	<ul style="list-style-type: none"> • Employers can register for the subsidy from early April 2020. • Final claims for payment must be lodged by 31 December 2020.
Increasing the instant asset write-off (IAWO)	<p>The IAWO is being increased from \$30,000 to \$150,000 for new and used assets and expanding to include all businesses with aggregated turnover of less than \$500m.</p>	<ul style="list-style-type: none"> • The annual turnover threshold for businesses is increasing from \$50m to \$500m. 	<ul style="list-style-type: none"> • Immediately, with deductions to be included in 2019-20 tax returns.
Backing business investment	<p>A time limited 15 month investment incentive by allowing for a tax deduction of 50% of the cost of an eligible asset on installation, with existing depreciation rules applying to the balance of the asset's cost.</p>	<ul style="list-style-type: none"> • Businesses with aggregated turnover below \$500m purchasing eligible assets. • Eligible assets are new assets that can be depreciated under Division 40 of the Income Tax Assessment Act 1997 acquired after announcement and first used or installed by 30 June 2021. 	<ul style="list-style-type: none"> • Immediately, with deductions to be included in 2019-20 tax returns.

Support for Businesses (cont.)

Aim	What	When
Administrative relief for Tax Obligations	<ul style="list-style-type: none"> • Businesses on a quarterly reporting cycle can elect to change their GST reporting and payment to monthly, to ensure they have access to refunds (should they be entitled) sooner. • If you're a quarterly pay as you go (PAYG) income tax instalments payer you can reduce your PAYG instalments on your activity statement for the March 2020 quarter to gain access to PAYG relief in the April month. • Where your business is affected by the coronavirus, the ATO will consider remitting interest and penalties applied to tax liabilities incurred after 23 January 2020. 	<p>Immediately Applicable</p>
Temporary relief for financially distressed businesses	<ul style="list-style-type: none"> • The Government is temporarily increasing the current minimum threshold for creditors issuing a statutory demand on a company under the Corporations Act 2001 from \$2,000 to \$20,000. This will apply for six months. • The statutory timeframe for a company to respond to a statutory demand will be extended temporarily from 21 days to six months. This will apply for six months. • The time a debtor has to respond to a bankruptcy notice will be temporarily increased from 21 days to six months. This will apply for six months. • When a debtor declares an intention to enter voluntary bankruptcy by making a declaration of intention to present a debtor's petition there is a period of protection when unsecured creditors cannot take further action to recover debts. This period will be temporarily extended from 21 days to six months. This will apply for six months. 	<p>Immediately Applicable</p>
Temporary relief from Directors' personal liability while trading insolvent	<ul style="list-style-type: none"> • Directors will be temporarily relieved of their duty to prevent insolvent trading with respect to any debts incurred in the ordinary course of the company's business. This will relieve the director of personal liability that would otherwise be associated with the insolvent trading. This will apply for six months. 	<p>Immediately Applicable</p>
Measures targeted to COVID-19 affected communities & Airlines	<ul style="list-style-type: none"> • An initial \$1bn to support those regions, communities and industries that have been disproportionately affected by the economic impacts of the Coronavirus, including those heavily reliant on industries such as tourism, agriculture and education. • Support to the airline industry by relief from a range of taxes and Government charges worth over \$715m. 	

Support for Individuals & Households

Aim	What	Eligibility	When
Income support for individuals	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.	The income support payment categories eligible to receive the Coronavirus supplement are: <ul style="list-style-type: none"> • Jobseeker payment • Youth Allowance Jobseeker • Parenting Payment (Partnered and Single) • Farm Household Allowance • Special Benefit recipients 	<ul style="list-style-type: none"> • Commencing 27 April 2020
Payments to support households	Two separate \$750 payments to social security, veteran and other income support recipients and eligible concession card holders.	Refer to https://treasury.gov.au/coronavirus for a full list of those eligible to receive the payment.	<ul style="list-style-type: none"> • Both payments to be made automatically from 31 March & 13 July 2020.
Temporary early release of superannuation	<p>Eligible individuals will be able to apply online through myGov to access up to \$10,000 of their superannuation before 1 July 2020.</p> <p>They will also be able to access up to a further \$10,000 from 1 July 2020 for approximately three months</p>	<p>Refer to https://treasury.gov.au/coronavirus for a full list of those eligible to access their superannuation.</p> <p>People accessing their superannuation will not need to pay tax on amounts released and the money they withdraw will not affect Centrelink or Veterans' Affairs payments.</p>	<ul style="list-style-type: none"> • Applications open from April 2020.
Providing support for retirees	<ul style="list-style-type: none"> • A temporary reduction in superannuation minimum drawdown requirements for account-based pensions and similar products by 50% for the 2019-20 and 2020-21 income years. • Reducing both the upper and lower social security deeming rates by a further up to 0.75 percentage points. 	<ul style="list-style-type: none"> • Refer to https://treasury.gov.au/coronavirus for details on the reduction in the minimum drawdown rates for each bracket. • The change to deeming rates (the upper deeming rate will be 2.25% and the lower deeming rate will be 0.25%) will be applicable to income support recipients including those on the Age Pension. 	<ul style="list-style-type: none"> • Temporarily reduce superannuation minimum drawdown rates – Immediately • Lower the social security deeming rates – From 1 May 2020

Supporting the flow of Credit

Aim	What	Eligibility	When
Government support for immediate cash flow needs of SMEs	Under the SME Guarantee Scheme the Government will guarantee 50% to SME lenders for new unsecured loans up to \$250,000 to be used for working capital.	SMEs with a turnover of up to \$50m will be eligible to receive these loans. The Government will provide eligible lenders with a guarantee for loans with the following terms: <ul style="list-style-type: none"> • Maximum total size of loans of \$250,000 per borrower. • The loans will be up to three years, with an initial six month repayment holiday. • The loans will be in the form of unsecured finance, meaning that borrowers will not have to provide an asset as security for the loan. Loans will be subject to lenders' credit assessment processes.	<ul style="list-style-type: none"> • Commence by April 2020 and be available for new loans until 30 September 2020
Australian Office of Financial Management Support	The Australian Office of Financial Management (AOFM) is being provided \$15bn to invest in structured finance markets used by smaller lenders, including Non-ADIs and smaller ADIs.		<ul style="list-style-type: none"> • Measures currently being considered and implemented.
Reserve Bank of Australia Support	<ul style="list-style-type: none"> • The RBA announced a term funding facility for the banking system of at least \$90bn in funding at a fixed interest rate of 0.25%. The facility offers particular incentives to banks lending to SMEs. • RBA announced a reduction to the cash rate to 0.25%. 		<ul style="list-style-type: none"> • Immediate

•

ROTHSAY

•

CHARTERED ACCOUNTANTS

•

ROTHSAY CHARTERED ACCOUNTANTS

Level 1/12 O'Connell Street, Sydney NSW 2000

P: +61 2 8815 5400

E: info@rothsay.com.au

W: www.rothsay.com.au

•

The information contained in this document is of a general nature and is not intended to address the objectives, financial situation or needs of any individual or entity. It is provided for information purposes only and does not constitute, nor should it be regarded in any manner whatsoever, as advice. It is not intended to influence a person making a decision as advice generally would. The information contained within was written to be accurate at the time of preparation. We provide no guarantee that the information is accurate at the time of receipt by you or will continue to be accurate in the future. We recommend you consider seeking professional advice before acting on any of the information contained within this document.