

## COVID-19 stimulus package announced

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The Coronavirus/COVID-19 pandemic has been dominating news headlines recently, especially in the last few days, as the country increasingly moves towards a state of near lock down. If you're a person in business, you've no doubt followed developments with an extra layer of anxiety. What will it mean for your employees? How will you pay your bills, and ensure that you get paid? The Federal Government has anticipated the unprecedented strain this will place on business by announcing new stimulus measures to help business improve cash flow while restrictions remain in place.

### **Cash Payments through the PAYG Withholding system**

Perhaps the most significant assistance measure for employers is the provision of up to \$25,000 tax-free to business through the PAYG Withholding system. Employers with annual turnover of less than \$50 million will receive a minimum \$2,000 credit when Activity Statements are lodged. The payment will amount to 50% of the amount withheld up to a maximum of \$25,000 in total.

For quarterly lodgers this will apply to both the March and June quarter Activity Statements, while for those that lodge monthly it will apply to the months from March to June inclusive.

While it may only be a drop in the bucket for some employers, it will be nevertheless provide some welcome respite for many and may allow businesses to keep more people in jobs. Furthermore, from all appearances it looks as though applying this measure through the Activity Statement system means businesses will not have to do anything to get it - it should be applied automatically, providing relief from further red-tape and compliance paperwork.

### **Increase to the Instant Asset Write-Off limit and eligibility threshold**

The current instant asset write-off limit will be increased from \$30,000 to \$150,000, and will expand to be made available for all businesses with total annual turnover up to \$500 million (from \$50 million currently).

This allows business to claim the full value of eligible assets as a deduction in the first year of purchase, rather than having to depreciate them over the useful life of the asset. The increased limit will apply from the date of the announcement until 30th June 2020. It doesn't result in any greater deduction overall, but by bringing the entire value in as a deduction during the first year, it provides a cash flow boost through reduced tax.

While not wanting to look a gift horse in the mouth, this measure is a little more in the 'wishful thinking' category. Intended to stimulate the economy through investment spending, it seems to us more likely beneficial only to businesses that had already planned purchases during this time. We believe that most businesses will be looking to hold over or cut major expenditure over the next few months, regardless of any tax incentive, in order to stay afloat and continue paying employees and suppliers.

### **Accelerated depreciation for larger assets**

In addition to the expanded instant asset write-off rules, accelerated depreciation measures will be available for new assets costing more than \$150,000. Eligible businesses will be those with annual

turnover less than \$500 million.

This measure will provide a deduction to the value of 50% of the cost of the asset in the first year, in addition to any depreciation claim. So for example, if the asset were being depreciated at 30% per annum, the business could claim 50% depreciation PLUS 30% of the balance remaining, effectively providing a claim for 65% of the cost of the asset in the first year.

Once again this will provide business with a cash flow boost in the form of a reduced tax bill, but the prudence of making large unplanned asset purchases during this time will need to be assessed, as will the ability to obtain finance. One additional advantage of this measure however is that it expires 30th June 2021, so it could well assist with recovery efforts once the crisis has passed. It is certainly the case though that business should not make purchases based solely on a perceived tax benefit. The net cash outflow is still negative. Businesses will need to consider more than ever the likely return on investment and how soon that will pay off, while taking into account the added tax benefit.

### **ATO Relief**

The Australian Taxation Office has announced that it will work with businesses that are experiencing financial strain as a result of the crisis, including allowing the deferral of some payment obligations and the varying of PAYG Tax Instalments for the March quarter, possibly even down to zero. It will also look to remit interest and penalties on overdue amounts, and work on more lenient payment plans. These measures require Tax Office approval so please contact us for assistance.

### **What else can you do?**

In all likelihood history will view this time as one of the great economic downturns, which means that there is probably some pain ahead for business. You should be preparing your business now for restraint while we ride this out.

Despite the Government incentives on offer, we'd advise a thorough review of all current and planned expenditure, with a view to deferring or cancelling anything that is significant and discretionary.

Amongst other things, speak to your credit providers and suppliers about modified payment terms, while at the same time being prepared where possible to extend flexible terms to your own clients and customers in an effort to help them survive, which preserves your revenue stream in the long run. We're all in this together and unlike what we're seeing in our supermarkets, mutual generosity and communication will be key. You'll also want to be proactive with employees and discuss what temporary measures can be enacted to ensure your business can survive while they remain employed (and you retain skilled labour). That may involve compromise on both sides.

**Finally, we're here to help. We are happy to offer you a complimentary phone call (rather than a face-to-face meeting at this time) to review your situation and work through possible options with you.**

Please [contact us](#) to discuss your situation further.

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