

Tax breaks and cash flow support to help cushion the economic blow of COVID-19

12 March 2020

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In brief

On 12 March 2020, the Federal Government announced its comprehensive package (AUD17.6 billion) of measures to respond to the current economic challenges confronting the Australian economy as a result of the continued spread of the coronavirus (COVID-19). The focus of the package is on “backing business and keeping Australians in jobs” and from a tax perspective, includes significant concessions for capital investment from today in the form of enhanced tax write-offs for depreciable assets, as well as cash flow assistance to small and medium-sized businesses.

In detail

The economic stimulus package announced by the Prime Minister and Treasurer on 12 March 2020 has four components:

- Supporting business capital investment through enhanced tax concessions;
- Cash flow assistance for small and medium-sized businesses to help them stay in business and keep their employees in jobs;
- Targeted support for the most severely affected sectors, regions and communities; and
- Household stimulus payments that will benefit the wider economy.

| Measure / Eligibility | Increasing the Instant asset write off until 30 June 2020 * | Backing business investment with accelerated depreciation until 30 June 2021 * | Cash flow boost delivered via activity statements * | Wage subsidy for trainees and apprentices * |
|---|---|--|---|---|
| Small business with fewer than 20 full-time employees | N/A | N/A | N/A | ✓ |
| Small business with less than AUD50 million aggregated turnover | ✓ | ✓ | ✓ | N/A |
| Medium business with aggregated turnover of AUD50million or more but less than AUD500 million | ✓ | ✓ | ✗ | N/A |

* *Note: other eligibility criteria may apply. Please refer below for further details.*

The measures for business are summarised in simple terms in the table above, with further details provided below. According to the Government, the package of temporary and targeted measures will provide direct support to 6.5 million individuals and 3.5 million businesses most affected by the economic impacts of the spread of COVID-19.

Enhanced tax concessions for capital investment

The following concessions were announced in relation to business capital investment for depreciating assets and apply immediately from 12 March 2020 to all businesses with an annual aggregated turnover of up to AUD500 million:

- *Increasing the instant asset write-off* by expanding the existing depreciating asset write-off so that it provides an immediate tax deduction for the cost of a depreciating asset, whether new or second-hand, which has a cost of less than AUD150,000 (up from the existing AUD30,000 limit). This is a temporary expansion and will only apply to eligible depreciating assets that are first used or installed ready for use from 12 March 2020 up until 30 June 2020. After this time, the asset threshold will revert to AUD1,000 and the instant write-off will only apply to small businesses with aggregated turnover of less than AUD10 million.
- *Backing Business Investment* with an accelerated depreciation deduction for all newly acquired depreciating assets (and it will not apply to second-hand assets). This concession will provide a tax deduction of 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 measure will apply for approximately 15 months and will apply to eligible new depreciating assets acquired from 12 March 2020 and first used or installed by 30 June 2021. There is no limit to the cost of a depreciating asset that can qualify for this concession, and it will be relevant for assets acquired between 12 March 2020 and 30 June 2020 with a cost of AUD150,000 or more which are not eligible for the instant asset write-off.

These measures have the potential to apply to approximately 99 per cent of Australian businesses. Multinational businesses will need to carefully consider eligibility having regard to the AUD500 million aggregated turnover threshold which, in accordance with existing tax law, also takes into account the ordinary business income of connected and affiliated entities (Australian or foreign), whether or not it is assessable in Australia.

Faster tax write-offs on depreciable assets such as plant, motor vehicles, equipment, etc have the effect of reducing taxable income and tax payable much quicker, with the tax benefit of such measures realised through the existing income tax return and payment system.

Having regard to potential global supply chain disruptions, a practical challenge for businesses seeking to rely on the concessions, particularly the expanded instant asset write-off, may be the ability to source relevant depreciating assets, and have them first used or installed ready for use before the deadline expires.

Cash flow boost to small to medium businesses

Small and medium-sized businesses will have a temporary cash flow boost with an automatic payment or credit to be applied on forthcoming activity statement obligations of at least AUD2,000 and up to AUD25,000 for those businesses which have aggregated turnover of less than AUD50 million and that have employees. This "Boosting Cash Flow for Employers measure" is expected to benefit around 690,000 businesses.

This tax-free cash flow boost is to be delivered automatically through the tax system as a credit applied upon businesses lodging their next activity statement. For monthly activity statement lodgers, this will mean the cash flow benefit can be obtained as early as 21 April 2020. For quarterly activity statement lodgers, the first benefits will appear from 28 April 2020.

The manner in which it will be calculated will differ for quarterly and monthly payers:

- For quarterly payers, it will be calculated at 50 per cent of the amount of tax withheld on salary and wages for the March 2020 quarter (January, February and March 2020) and also for the June 2020 quarter (April, May and June 2020), subject to the maximum cap.
- For monthly payers, it will be calculated as 150 per cent of tax withheld on salary and wages for March 2020, and for each of the following months until June 2020 calculated at 50 per cent of the tax withheld for the particular month, subject to the maximum cap.

The benefit will be capped to a cumulative maximum payment of AUD25,000. All eligible businesses that pay salary and wages will receive a minimum payment of AUD2,000, even if no amounts are required to be withheld from employees' salary and wages.

Wage subsidy for trainees and apprentices

A further cash flow boost will apply to small businesses employing fewer than 20 full-time employees who retain an apprentice or trainee who was in training with a small business as at 1 March 2020. Specifically, the Government will provide a wages subsidy to eligible employers calculated at 50 per cent of the apprentice's or trainee's wage paid during the nine months from 1 January 2020 to 30 September 2020, up to a maximum of AUD21,000 per eligible apprentice or trainee (AUD7,000 per quarter).

Other measures

The Government also announced a number of other measures including:

- A one-off payment of AUD750 to lower-income Australians, including pensioners, other social security and veteran income support recipients and eligible concession card holders.
- AUD1 billion allocation to support regions and communities that have been disproportionately affected by the economic impacts of COVID-19, including those heavily reliant on industries such as tourism, agriculture and education. The Australian Taxation Office (ATO) will also provide administrative relief for certain tax obligations for taxpayers affected by the COVID-19 outbreak, on a case by case basis. The ATO will also seek to enhance its presence in significantly affected regions (e.g. Cairns) to make it easier for people to apply for relief.

The takeaway

As the global spread of COVID-19 continues, the economic impacts both locally and overseas are just beginning to be felt. As highlighted by the Prime Minister and Treasurer in their announcement, Australia is well placed to respond to the economic challenges it faces with a budget returned to balance last year. Both the IMF and OECD have indicated that Australia is in one of the best positions within advanced economies to provide fiscal support without endangering debt sustainability. The tax concessions and cash flow support announced on 12 March 2020 will be welcomed by many small and medium businesses, although practical challenges will remain.

In addition to the potential direct and indirect benefits of the economic stimulus package, there are a range of other issues that businesses should consider as they face the challenges posed by COVID-19. For further information, visit: www.pwc.com.au/important-problems/covid-19.html

Let's talk

For a deeper discussion of how these issues might affect your business, please contact:

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