NEWSLETTER

April 2020

Introduction

Welcome to our newsletter for April. A newsletter for extraordinary times.

In this edition of our newsletter, we discuss the third round of Commonwealth stimulus measures that were announced earlier this week. We also try to take a longer-term view of the Australian economy and in particular the sharemarket, by harking back to other disruptive periods in history and seeing what at least one prominent player from the Global Financial Crisis (GFC) has to say about the current Coronavirus crisis.

As always, we hope that you and your loved ones stay safe and well in these unprecedented times.

Peter Dugan

02 9476 6700

pdugan@edgeworthpartners.com.au

www.edgeworthpartners.com.au

The Share Market

Now for information that is almost certainly not news: prices in the Australian share market have fallen off a cliff in the past two months, and especially since February 20. Here are the one-month price performances for both of February and March 2020, thanks to Alphabet and the ASX:

ASX 200 Daily Prices February 2020

ASX 200 Daily Prices March 2020

The market opened the month of February at 6,923 points and fell to 6,391 by the end of that month. It then closed the month of March at 5,076 points. This is a fall of 26.7% across the two-month period.

There is not a lot to analyse with this information. The economic impact of the Coronavirus means that Australia will certainly go into a deep recession. Company profits will fall. This means that companies whose shares trade on the ASX will earn less profit than was expected prior to the Coronavirus appearing. As a result, share prices, almost certainly, will also fall. In the following section, we present you with some food for thought about what might come next for the Australian sharemarket.

The Importance of Long-Term Thinking

Pick up any newspaper or watch any news broadcast and there is only one topic in the news at the moment. The wall-to-wall coverage of the Coronavirus and its impact on our lifestyle and, in particular, our economy can make it difficult to know whose opinion to follow.

At times like this, it pays to listen particularly to those people with a track record of getting it right. One such person is former Treasury Secretary, Dr Ken Henry. Henry was the Treasury Secretary in the late 2000's, when world economies were crippled by what became known as the global financial crisis. Parts of the Australian economy were savaged - in 2018, Henry reminded us that in the first six months of 2009, Australia's mining industry reduced its workforce by more than 15%. He pointed out that the national unemployment figure would have risen to almost 20% if every industry within the economy had followed suit.[1]

Happily, that did not happen. Australia avoided such an outcome because Henry's Treasury came up with a simple piece of intelligent advice for the Commonwealth Government. Treasury was not surprised by the crisis, and it had previously run what are colloquially known as "War Games" to model how government should respond to shocks such as the GFC. While the formal advice was undoubtedly lengthier, Treasury's stimulus advice to the Commonwealth government was summarised as "go hard, go early and go households." As in: give a lot of cash to households as fast as you can.

So, Henry has a good track record. We were heartened last weekend to see the Murdoch press quoting Henry predicting a strong recovery for the Australian economy. Specifically, The Australian newspaper wrote:

> *"the architect of the nation's response to the 2008 global financial crisis says Australians can take comfort from history, because sharp economic shocks like the one triggered by the Coronavirus have always heralded periods of robust growth."*

The journalists then quoted Henry specifically:

> *"One thing we do know is that a shock is always followed by a period of strong growth, including employment growth."*[2]

To some extent, this echoes what we wrote in our newsletter for March (underline added):

> *Strange as it may seem, natural 'disasters' such as pandemics often create more economic activity than they inhibit, especially over the long term. The Economic Depression of the 1930s did not really end in Australia until 1939, when Australia entered the Second World War. The war effort meant that everybody was put to work, and this created a spike in economic activity that continued well into the early 1970s.*

As we say above, Ken Henry knows what he's talking about. He effectively led Australia through the GFC. By world standards, the Australian economy performed remarkably in the wake of the GFC. Technically, our economy did not even go into recession (although GDP (Gross Domestic Product) definitely fell – the 'non-recession' was more of an accounting event). And in the years immediately following 2008/2009, our rate of growth in GDP, which had been rising steadily prior to the GFC, simply returned to its pre-GFC rates of growth. According to the World Bank, Australia's GDP fell by about 10% in 2008-2009. But from 2009 to 2013, GDP then rose by more than 60%.

Going hard, going early and going households was clearly good advice - and the person who came up with that advice is well worth listening to today. He is telling us that the downturn caused by Coronavirus –

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1 Big Government Is Good, Fairfax Press, October 6, 2018.

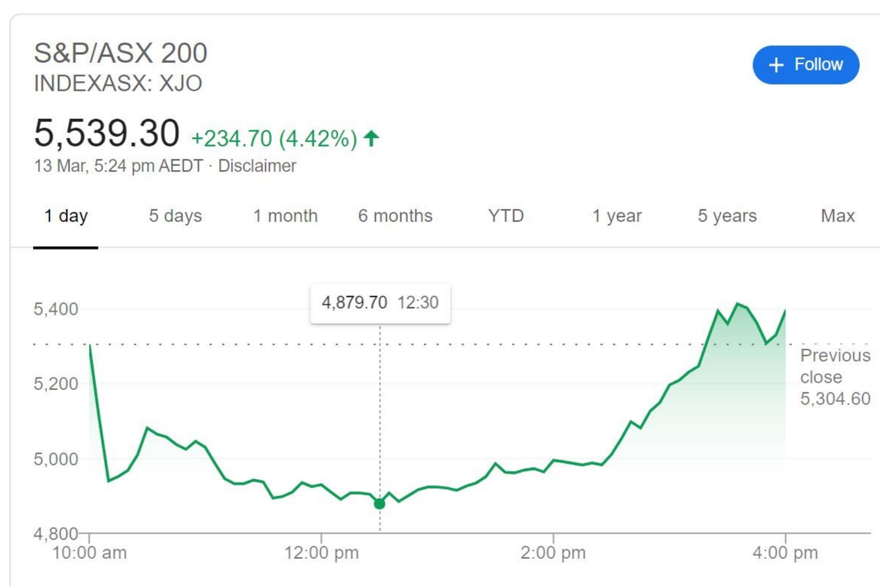
2 Nation Will Bounce Back: Henry. The Weekend Australian, March 28-29, 2020

which will be one of the largest ever and which will cause economic difficulties – will nevertheless be followed by a period of economic growth. We should be reassured – as a long-term proposition.

When Will this Long-Term Start?

The question then becomes: when will this long-term start? Or, put more usefully for investors and super fund members: has the share market bottomed out yet?

As we have said previously, no one really knows in which direction the market is about to move. That point was proved beyond all measure on Friday March 13th 2020 (yes, Friday the 13th) when the ASX 200 performed extraordinarily, as this graph shows (again, thanks to Alphabet and the ASX):



Think through the gyrations of the market that day: the market opened at 5,305 points. By 12.30pm, after just two and a half hours of trading, the market had fallen to a low of 4,879 points. That is an 8% fall. Then, over the next three and half hours, the market *rose* by 13.5%, closing up 4.4% for the day. If a market can fall by 8% and rise by 13% *on the same day*, then trying to predict what is going to happen next really is a mug's game.

In a similar vein, no one ever knows when a market has reached its bottom (or its top). Market bottoms are visible only in the rear-view mirror: you only know you got there once the market has started to rise again. This has various implications, but the chief one is that no investor should ever think that they will 'hop in' at the very bottom of the market. Near enough to the bottom is good enough.

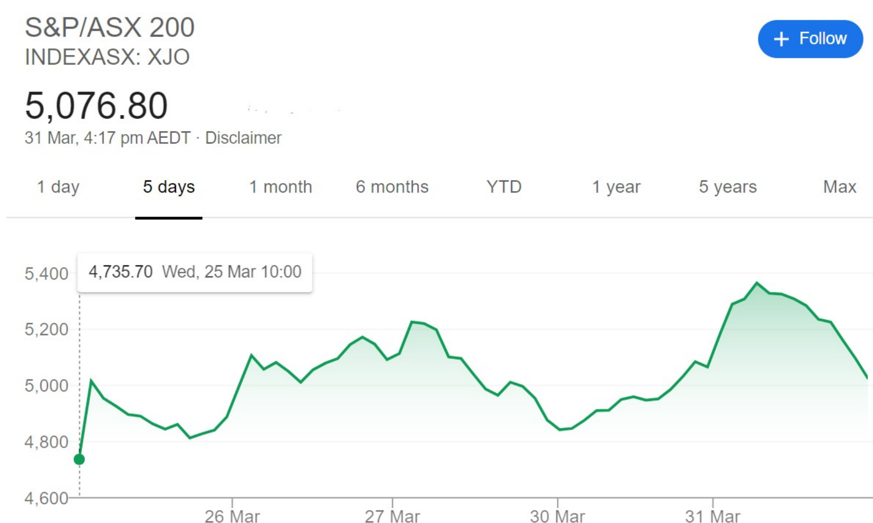
So, are we *near* the bottom of the market? That's also hard to tell. Recently, we came across an interview with an Australian investment manager named Ben Griffiths. Ben is the portfolio manager at Eley Griffiths, a private fund manager. He was quoted in the Fairfax press on March 15 with this to say about the bottom of the market:[3]

> *Veteran portfolio manager Ben Griffiths doesn't pretend to know how damaging the Coronavirus outbreak will be on the global and Australian economies, or how much it will hit corporate earnings. But he does know what signs he'll be looking out for to know equity markets have bottomed.*
>
> *"I want to see the market's reaction to bad news," the co-founder and managing director of the $1.5 billion fund manager Eley Griffiths said… "If companies start coming out with profit warnings after a*

3 Please note that this quote is not an endorsement of Eley Griffiths. We just think the Griffiths explained his theory of market bottoming particularly well.

decent retreat and their share price rallies, that tells me as a professional investor that bad news is so absorbed into share prices that they can no longer go down. You need to see that play out."

A profit warning is a statement that a company expects its profits to fall from past levels or past predictions. Put simply, what Griffiths is saying is that he wants to see predictable bad news like a profit warning no longer having a negative effect on a company's share price, because the market has already expected the bad news. It is unlikely that our market is at that point yet. The day to day swings are far too high for that to be the case. Have a look at the five-day graph of the ASX 200 from Wednesday March 25 to Tuesday March 31:



On Wednesday March 25, the market opened at 4,735. It closed at 4,887: a rise of 152 points, or 3.2%. The next day, Thursday, the market closed at 5,091 points, a rise of 204 points, or 4.1%. The next day, Friday, the market closed at 4,842, a fall of 209 points, or 4.1%. The next trading day, Monday, the market closed up 223 points at 5,065. This is a rise of 4.6%. Finally, on the Tuesday, the market closed at 5,026, a fall of 39 points, or 0.7%.

Griffith's logic tells us that a market that is moving by more than 4% per day virtually every day is still adjusting massively to daily announcements. This market remains very vulnerable to new bad news. In the current environment, it would be foolhardy to think that there will be no more bad news.

One other thing to note: the Jobkeeper benefit was announced on Monday March 30 (and discussed in detail below). 114,000 businesses had registered for the payment by 11am the next morning. One of the criteria for businesses to be eligible is that their turnover has fallen by at least 30%. That so many businesses are in such a state suggests that the economy really is in for a deep recession. As of March 30, the ASX 200 was down around 25% from its peak on February 20. This would be a shallow fall for such a deep recession.

Data like this means that it is unlikely that we have seen the bottom of this market. But we may well be *near* the bottom. Come back in twelve months' time and we will confirm that for you! In the meantime, we investors are left with the collected wisdom of market history. We discussed this in our newsletter last month: dividing up your investment money into small chunks that you invest over time makes more sense than keeping your money in one bundle and trying to time the market perfectly. If you were to invest a small amount regularly each fortnight or month for the foreseeable future, you would almost certainly invest some of that money at the bottom of the market.

And you would be readying yourself to benefit from the recovery that Ken Henry and Australian history both expect to happen.

April 2020

Stimulus Mach 3

Over recent weeks, the Commonwealth Government has announced a range of stimulus measures designed to lessen the economic impact of the Coronavirus in Australia. We have discussed the first two batches of stimulus in previous articles, and these articles are reproduced below. On Monday, March 30, the Commonwealth Government announced a third round of stimulus.

The third round is designed to encourage employers to retain employees. It is known as the *Jobkeeper* payment and its intention is for employers and employees to remain attached to each other so that, once the risk of Coronavirus starts to reduce, the economy is as well-placed as possible to 'pick up where it left off.' The payment works like this:

- employers with annual turnover less than $1 billion are eligible to receive the payment if their turnover has reduced by more than 30% compared to a comparable period 12 months prior;
- employers with a turnover of more than $1 billion need to have a reduction of 50% in their turnover over the same period;
- employers will then receive a payment of up to $1,500 per fortnight per eligible employee. This payment must be passed on to the employee in full (that is, the employer must pay their employee at least $1,500 per fortnight in order to qualify for the payment);
- an eligible employee is someone who, on March 1, 2020, was (i) a permanent full-time or part-time employee; or (ii) a casual employee who had been with an employer for more than 12 months. Self-employed people are also eligible;
- employees who ordinarily receive more than $1,500 per fortnight will need to have the balance of their remuneration paid by the employer (assuming they remain employed);
- employees who ordinarily receive less than $1,500 per fortnight will receive the payment of $1,500 per fortnight (we know: this seems extremely generous – it may be changed);
- employees who have been stood down will receive the payment of $1,500 per fortnight:
- employees who have been made redundant can be re-engaged by the employer and can then receive the payment of $1,500 per fortnight;
- employees who receive the *Jobkeeper* payment cannot also receive the additional *Jobseeker* payment announced in the second round of stimulus. If employees have already applied for the *Jobseeker* payment, they simply need to advise the Commonwealth that they will be receiving the *Jobkeeper* payment instead.

So, while the payment is actually made to the employer, that employer is obliged to pass it on to the eligible employee. The benefit to the employer is that they retain their relationship with their employees and receive a subsidy for the wages or salary of staff that they retain. It is a big incentive to retain staff.

The payment is made via the tax system. The subsidy starts from March 30, 2020 with the first payment to be received in the first week of May.

Employees who have multiple employers must nominate one employer from whom to receive the payment. This is very similar to the current arrangement, whereby employees with multiple employers must nominate one of those employers through whom they will claim the tax-free threshold. Basically, the employer through whom the tax-free threshold is claimed will normally be the employer through whom the *Jobkeeper* payment is claimed.

While it is very expensive, this measure is particularly intelligent. The *Jobkeeper* payment does two things. Firstly, it puts money in the hands of employees, including people who have been stood down, and in this way it stimulates economic activity. Secondly, and probably more importantly, it encourages the retention of the relationship between the employer and the employee. This reduces the extent to which the economy is readjusted by the Coronavirus and our response to it. This should minimise the disruption to the economy and optimise the recovery that we can look forward to once the Coronavirus threat has passed.

As with all the government stimulus measures, if you'd like to know more please feel free to get in touch.

Website Articles from March 2020

We Looked at this Already – Way Back in 2018.

(First Published March 13 2020)

The share market has been extraordinary lately. On Monday of this week, the market fell by an average of 7.33%. This meant that the average Australian share had dropped by almost 20% in just 12 trading days since February 20.

Obviously, it would have been wonderful if we had all withdrawn our money from the market on February 19. But no one knew that then. And since then, with the market being so far down, the risk of withdrawing money is even higher: doing so could simply lock in the losses that, at the moment, for many people only exist on paper.

The markets moves of late remind us of article that was published just over four years ago now. It was written by a chap named Peter Gee, who is a research manager with Morningstar Australasia. Originally, the article was published on www.cuffelinks.com.au on 10 December 2015. That site has since changed its name to www.firstlinks.com.au and is owned by Morningstar. You can read the article for yourself by clicking this link.

The article talks to the merits of taking a long-term view – something we all need to be reminded of in the current market. We wrote about the article once before, back in 2018. This week, we thought that the best thing we can offer you is a reminder of what we wrote back then – with some additional comments about the current situation facing the market.

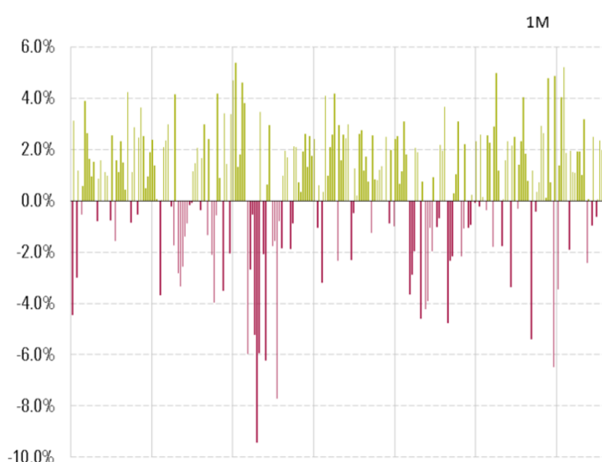
To make sense of the current situation, the first thing we need to realise is that no one knows what the market will do tomorrow, next week, next month or even next year. That's why there were no big withdrawals on February 19. Here is how John Jennings, writing in Forbes Magazine as recently as last December, summed up the research:

> Similarly, a recent study of 6,627 forecasts made by 68 experts found that the forecasters performed in line with what chance would dictate and *overall their forecasts were not quite as good as a coin flip*. As expected, a handful of forecasters were pretty good, and a handful were terrible. Everyone else was in-between.

We have added the italics to the above quote. But note what the author is saying: people would been slightly *better off* tossing a coin than relying on the experts who had been studied by these researchers.

In many ways, it is little surprise that experts are not very good at predicting short term movements in the markets. After all, as Peter Gee and Morningstar showed us in 2015 using a balanced super portfolio as his example, short term market performance looks like this:

Exhibit 1 Rolling One-Month Returns (September 1995 – August 2015) of a Balanced Superannuation Portfolio

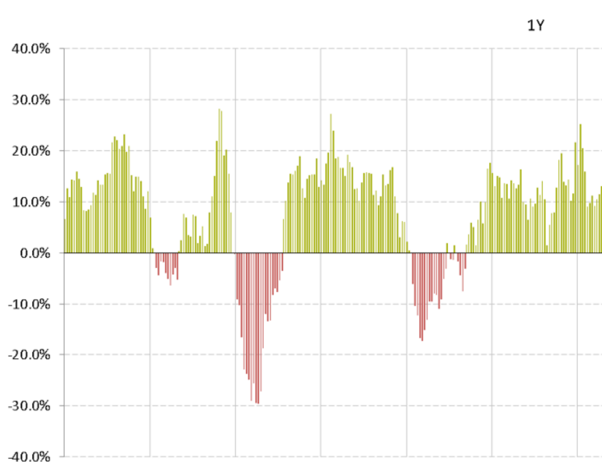


Source: Morningstar Direct

The green bars are the 'good' months in which the market rises and returns are positive. The red bars are the 'bad' months when the market falls and the returns are negative. Short term investing in markets like the share market is a random mix of green and red. Some months the market goes up (about two in three, as it happens), but in other months it goes down. Sometimes the changes are large, sometimes they are small. But they are almost random – which makes predicting these short-term changes really difficult. As an investor, there is little that can be done about this short term volatility. It's just the way it is.

But things are not so hard to control for investors who throw their eye out over the medium to long-term. When we look at the experience of these longer periods, things change. Patterns even start to emerge. The market is not as noisy. Not as chaotic. The underlying economic relationships manifest, and performance starts to get much less lumpy. Once again, Peter Gee and Morningstar show us this when they alter the time period from 1 month (in the graph above) to 1 year:

Exhibit 2 Rolling One-Year Returns (September 1995 – August 2015) of a Balanced Superannuation Portfolio

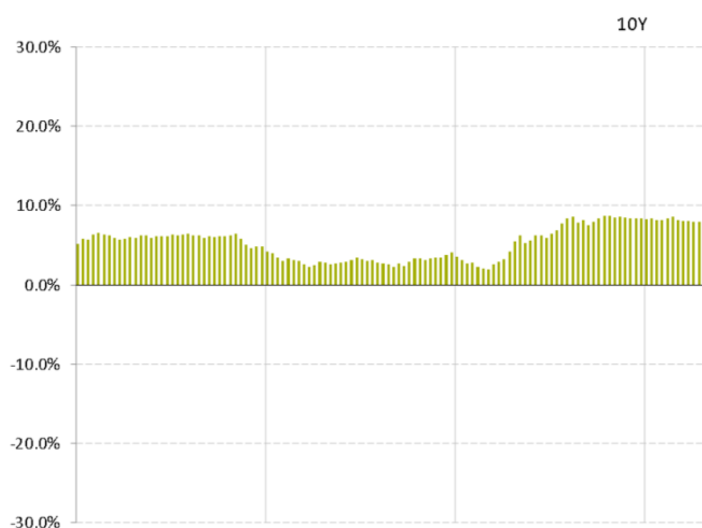


Source: Morningstar Direct

Now, there is more green than red. Even more importantly, the colours tend to lump together, dividing into extended periods of positive and negative performance. We will come back to what this means a little later. But, for now, we see that the market is much less volatile when we take a 12 month timeframe.

So, how do you think things look when we use a rolling *ten-year* average? Now, relationships and trends become clear. Growth assets, such as property and shares, will, on average and in the long run, earn more than the risk-free rate of return. Risk takers must be compensated, or else they will not take risks. It's basic economics. Using one more graph from Peter and Morningstar, the ten-year rolling average looks like this:

Exhibit 3 Rolling 10-Year Returns of Balanced Superannuation Portfolio 1995 – 2015. Bars Represent Rolling 10 Year Returns Each Month-End from the 10 Years to 30 September 2005 through to the 10 Years to 31 August 2015



Source: Morningstar Direct

Now, the graph looks like a well-manicured front lawn. The chaos and instability has gone. Things become much clearer. Despite all the negative one-month results, over the twenty-year period, there are no negative ten-year periods. (And remember, over a twenty-year period, there are actually around 120 separate ten-year periods).

As we saw above, there were plenty of negative single years, and even more negative single months, but as time goes by their effect is increasingly outweighed by the positive periods. There is safety in time. Time is the investor's friend.

Gee's article shows that investors who use a minimum holding period of at least ten years reduce almost all the risk of losing money. Put another way, people should be very careful about investing in the share market with a timeframe of less than ten years. If you need money sooner than that, the share market is not the place to hold it.

But this month is a red month!

One thing that is very clear is that February/March 2020 will show as a 'red one' if Morningstar re-do exhibit 1 from above! And, as exhibit 2 shows, red months tend to cluster a bit.

But have another look at exhibit 2. It suggests that, in the 20 years between 1995 and 2015, there were three groups of negative returns, lasting for up to 18 months (1999, 2002 and 2008). Remember, these are 'rolling' one-year periods, so these periods generally are the ones that include a few really poor months in a row. Given the ASX's falls since February 20, we can be fairly certain that we are in another of those red periods right now.

Now ask yourself a question: when you buy something, would you rather make your purchase in the month *before* prices fell or the month *after*? To put that another way, do you want to buy things when prices are high or when prices are low?

Share prices are currently a lot lower than they were a month ago. So, if you were prepared to invest a month ago, it makes even more sense to be a buyer today. But, should you wait longer and see if prices fall again next month?

Well, that is where you need to remember the coin tossing experience. No one knows if prices will rise or fall next month. You might be better off waiting – or you might not. This is why many successful investors choose to invest small amounts frequently, rather than a large amount all at once. In fact, if you invest the same amount of money each month (say), then you will automatically buy more shares in months when prices are lower. This 'skews' the average purchase price of your portfolio down and helps ensure that longer-term performance is unlikely to be negative.

These investors would even be looking at the large drops in the market recently as opportunities. And, if you don't need to sell your shares any time soon, you should too.

A Time for Stimulation (Stimulus Mach One)

(First published March 20 2020)

Next week, the Commonwealth Parliament is expected to pass an emergency $17.6 billion stimulus package. The package is designed to boost the Australian economy – a boost that is needed due to the current and expected future impact of the Coronavirus. The Government's hope is that its measures will boost spending (on things other than groceries) by households and assist businesses to 'weather the storm' caused by Coronavirus.

On Tuesday this week media outlets started to report an expected second round of stimulus, with some speculating that the second tranche will be directed to sectors most negatively exposed to the effects of Coronavirus, such as tourism and the sports industry. It may be that, while Parliament is sitting next week, further stimulus measures are also approved. But, as of this week, we can expect that Parliament will approve the following assistance for households and businesses.

Household Assistance

Approximately 6.5 million income support recipients will receive a one-off payment of $750. To be eligible, a person needs to have been (i) residing in Australia; and (ii) receiving an eligible payment on March 12, 2020. Eligible payments include: aged, veterans and disability pensions; carer payments; Abstudy and Austudy payments; Newstart, Youth and Farm Household allowances; and family tax benefits.

In addition, people who hold a pensioner concession card, a Commonwealth seniors health card or a veteran Gold card will also be eligible.

The payments are expected to be made in the first two weeks of April 2020. In total, the government is expecting to pay $4.8 billion.

There are also some additional potential payments for people who become unable to work because they have either been diagnosed with the Coronavirus or are in isolation for preventative reasons. The specific details of these payments have not been released.

Business Assistance

Business assistance is available for eligible businesses, which are effectively divided into two categories. The first is category is businesses with a turnover of less than $50 million per year. The second category includes this category, but is extended to businesses with a turnover of less than $500 million per year.

Turnover less than $50 million

Businesses with a turnover of less than $50 million per year and which employ workers will become eligible for a series of benefits. These include a boost to cashflow and assistance for employers with apprentices or trainees.

Boosting Cash Flow for Employers

The tax system will be used to provide an untaxed cash benefit to eligible employers. The total benefit is expected to be $6.7 billion and will work as follows:

When the employer withholds tax on behalf of its employees and remits this money to the Tax Office, the Tax Office will then rebate 50% of the amount withheld to the employer. The maximum amount that will be rebated by the Tax Office is $25,000. (That is, businesses can claim the benefit on the first $50,000 of tax that they withhold).

The amount of tax being withheld is reported to the government via the business's Business Activity Statement. Some businesses lodge these statements on a monthly basis. Others lodge these statements on a quarterly basis. Businesses which lodge on a monthly basis will receive rebates for the March, April, May and June months. Businesses which lodge on a quarterly basis will receive rebates for the March and June quarters.

Businesses will continue to receive the rebates until they reach $25,000. For example, if a business withholds $40,000 in taxes for the March quarter, it will receive a $20,000 rebate when it lodges its BAS for the March quarter. If it then withholds another $40,000 in taxes for the June quarter, it will only receive a further $5,000 rebate when it lodges the June BAS, bringing the total rebated to $25,000.

All businesses which employ staff will receive a minimum of $2,000. They will receive this even if the amount of tax withheld from staff is less than $4,000. For example, a business might have only one employee who is paid $15,000 per year. As this is below the tax-free threshold, that business does not withhold any tax on behalf of that employee. The business will still receive the $2,000 payment, however, because it is employing at least one person.

Where tax has been withheld, it is important to note that, while the money withheld and remitted to the Tax Office actually came from the employee, it is the employer who gets the financial benefit of the package.

Lastly, for small one or two person businesses which may operate using a trust, if a director receives a salary that business should qualify for at least the $2,000 – although this is something to check with your tax agent.

Supporting apprentices and trainees

Apprentices and trainees constitute one of the most vulnerable employee groups within the community at this time. Businesses which employee apprentices or trainees will be entitled to a wage subsidy of 50% of

that apprentice or trainee's wages between 1 January and 30 September 2020. The subsidy is capped at $21,000 for the nine-month period, with no more than $7,000 being payable in any of the three periods.

The apprentice or trainee must have been employed prior to 1 March 2020 and the business must have less than 20 full-time employees as of that date.

The total amount paid under this program is expected to be $1.3 billion.

Turnover Less than $500 Million

At the moment, businesses with turnover of less than $50 million can instantly write off (depreciate) the full value of new assets purchased up to a limit of $30,000 per year. Basically, businesses get an immediate tax deduction for asset purchases up to $30,000. The threshold of $30,000 will be increased to $150,000 and the range of businesses which are eligible will be expanded to include those with revenue of up to $500 million. The change applies to assets purchased before June 30, 2020. The government expects this change will reduce total tax collected by $700 million – which is to say that $700 million will remain in circulation within the economy.

There will be a further deduction for some purchased assets that exceed the threshold of $150,000. Provided the asset is eligible, over the 15 months to 30 June 2021 a business can depreciate 50% of the value of that asset. The remaining 50% of the value of the asset can be depreciated at normal rates. The government expects this measure to reduce the amount of tax collected by $3.2 billion.

Need More Information?

If you would like to discuss any of the above measures, or generally talk to us about your personal financial management in the wake of the economic impact of the Coronavirus, please feel free to get in touch.

As always, we hope that you and your loved ones remain safe from the virus and that the disruption caused by the community's response does not affect you too negatively. Stay safe and we look forward to seeing you soon.

Commonwealth Stimulus, Phase Two

(First Published March 27 2020)

Last week, we discussed the stimulus package that had been announced but not yet passed through Parliament. As we forecast, the Commonwealth Government then announced a second round of stimulus measures. Both packages were passed by Federal Parliament earlier this week. In this article, we will look at the effect of the measures from both the first and the second announcements.

The total stimulus measures include elements directed at both businesses and individuals. We will look at the assistance available to each of these groups separately.

Please note that there are also some state-based measures that have been introduced, in particular for business, addressing things like payroll tax. Please contact us if you would like to know more about these.

Assistance for Business

100% Cashback on PAYG Withholding

Employers who withhold tax on behalf of employees and then remit that tax to the Commonwealth will receive 100% of that amount back as a rebate, up to a total limit of $100,000.

The total rebate comes in two instalments of $50,000 that cover two separate periods of time. The first rebate relates to the period between 1 January 2020 and 30 June 2020. Up to $50,000 of PAYG Withholding tax paid during this period will be rebated to eligible employers. If employers pay less than $50,000 of PAYG withholding tax, their rebate will be capped to the actual amount paid - although there is a minimum payment of $10,000 for eligible employers.

As an example, if an employer withholds $25,000 in PAYG tax over the six months from 1 January to 30 June and them remits this money to the Tax Office, that employer will receive $25,000 cash back as a rebate upon lodgment of the relevant BAS's.

The second instalment relates to the period 1 July 2020 to 30 September 2020. The mathematics are exactly the same as for the first instalment - the first $50,000 of PAYE withholding tax for that three-month period will be rebated to eligible employers. If less than $50,000 is withheld, then that lesser amount will be rebated.

The rebate is tax-free to the employer. It is not expected to be passed on to the employee, even though the PAYG tax that is being withheld comes from employee wages and salaries. The idea is to reward those employers who are employing people - especially those employers who retain employees beyond 30 June. This is also the reason why the benefit is being paid as a rebate after the employer has remitted tax to the tax office: this is an integrity measure to make sure that the rebate is only being provided to genuine employers.

While the maximum payable in each of the two periods is $50,000, there is a minimum of $10,000 payable to eligible employers in each period. Employers who withhold less than $10,000 in tax in one or both periods should receive $10,000 for that period.

Employers do not need to apply for the rebates: they will be automatically calculated when employers lodge their BASs for the relevant period.

Incentives to Retain Apprentices

As we reported last week, businesses that employ apprentices or trainees will be entitled to a wage subsidy of 50% of that apprentice or trainee's wages between 1 January and 30 September 2020. The subsidy is capped at $21,000 for the nine-month period, with no more than $7,000 being payable in any of the three periods. This benefit is portable, in the sense that it is available to an employer who takes on someone with an existing apprenticeship but who was forced to leave their previous employer.

Instant Write off Threshold Increases

As we wrote last week, businesses with turnover of less than $50 million can currently write off (depreciate) the full value of new assets purchased, up to a limit of $30,000. Basically, businesses get an immediate tax deduction for asset purchases up to $30,000. The threshold of $30,000 will be increased to $150,000 and the range of businesses which are eligible will be expanded to include those with revenue of up to $500 million. The change applies to assets purchased between March 12 2020 and June 30 2020.

There will be a further deduction for some purchased assets that exceed the threshold of $150,000. Provided the asset is eligible, over the 15 months to 30 June 2021 a business can depreciate 50% of the

value of that asset. The remaining 50% of the value of the asset can be depreciated at normal rates. The government expects this measure to reduce the amount of tax collected by $3.2 billion.

Loan Guarantees for Small Business

The Commonwealth Government will guarantee 50% of amounts borrowed on new unsecured business loans. Please note that this does not mean that the government is itself lending money or taking on an obligation to repay the loan. The government is simply facilitating loans designed to provide short to medium term cash flow for eligible businesses. Those businesses will have to make repayments on these loans in full.

Please contact us if you are having cash flow problems and we can explain this measure further.

Assistance for Individuals

Coronavirus Supplement

For the next six months, the Commonwealth will pay a 'Coronavirus Supplement' of $550 per fortnight to eligible recipients of social security payments. $550 is slightly less than the current amount paid as Newstart allowance to a single person with no children. So, the Coronavirus supplement effectively doubles the Newstart allowance for single people.

People with dependent children currently receive a slightly higher Newstart allowance. Their allowance will still increase by $550 per fortnight. It is not quite a doubling for those people.

The supplement will be paid to current and new recipients of a range of Social Security benefits, including Newstart allowance, youth allowance for jobseekers, parenting payments, farm household allowances and the Commonwealth's special benefit.

Eligibility for these benefits has also been expanded. Unemployment benefits (Newstart and Youth Allowance for Jobseekers) will become available to: permanent employees who are stood down, sole traders, self-employed people, casual workers and contractors whose income falls below the appropriate threshold as a result of the Coronavirus.

Ordinarily, unemployment benefits are subject to an assets test. The idea is that people need to draw down on their own reserves before applying for benefits. However, the assets test will be waived for the period of the Coronavirus supplement. This lets people access the benefits without first running down their savings.

This supplement will commence from 27 April 2020.

One-Off Cash Payments

As we reported last week, approximately 6.5 million income support recipients will receive a one-off payment of $750. To be eligible, a person needs to have been (i) residing in Australia; and (ii) receiving an eligible payment from the Commonwealth. Eligible payments include: aged, veterans and disability pensions; carer payments; Abstudy and Austudy payments; Newstart, Youth and Farm Household allowances; and family tax benefits. People who hold a pensioner concession card, a Commonwealth seniors health card or a veteran Gold card will also be eligible.

Superannuation Access

People adversely affected by the economic effects of the Coronavirus will be allowed to withdraw up to a total of $20,000 tax-free from their superannuation fund. $10,000 can be withdrawn before the end of the current financial year and a second amount of $10,000 can be withdrawn during the next financial year.

Summary

The Commonwealth has a simple two-sided economic agenda at the moment. Firstly, it aims to provide as much stimulus as possible to the spending side of the economy (via the cash payments being made available to individuals, almost all of which can be expected to be spent by those individuals). Secondly, the Commonwealth is also striving to ensure that the supply side of the economy remains functional (via the various payments being made available to employers).

Quite clearly, Australia is in the early stages of the overall impact of the Coronavirus on our community. Here's hoping that these measures go a long way towards lessening the economic impact of the virus on our community. If you or anyone you know would like to discuss how to access these incentives or whether they apply to you, please feel free to get in touch.

Most people have realised that the seriousness of the crisis facing the community at the moment has really ramped up in the past week or so. One great thing we are seeing is an increase in people helping each other out. Long may this last. We continue to hope with all of our hearts that you and your loved ones stay safe and healthy.

The Legal Stuff

General Advice Warning

The above suggestions may not be suitable to you. They contain general advice which does not take into consideration any of your personal circumstances. All strategies and information provided on this website are general advice only.

We recommend you seek personal financial, legal, credit and/or taxation advice prior to acting on anything you see on this website.

Contact Details

Address	Suite 1, Lvl 1, 22-28 Edgeworth David Ave Hornsby NSW 2077
Phone	02 9476 6700
Website	www.edgeworthpartners.com.au
Email	partner@edgeworthpartners.com.au

Licencing Details

Peter Dugan ABN 90 080 146 845 is an authorised representative (no. 380321) of Avana ABN 67 631 329 078 (Australian Financial Service Licence no. 516325).

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