

ECONOMIC AND FISCAL UPDATE POLICY BULLETIN

JULY 2020

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FEDERAL GOVERNMENT ECONOMIC AND FISCAL UPDATE

On the 23 July 2020, the Federal Government delivered its [Economic and Fiscal Update](#) (the Update) following a series of earlier announcements in relation to COVID-19 support packages including JobKeeper.

The Federal Government has delivered fiscal and balance sheet measures costing Australians \$289 billion, equivalent to around 14.6 per cent of 2019-20 GDP.

Australia is in recession with real GDP is expected to have fallen by 7 per cent in the June quarter 2020 and unemployment is forecast to peak at around 9.25 per cent in the December quarter 2020.

The Update [reported](#) a major deterioration in the budget position driven by large declines in taxation receipts and increases in payments, with estimated deficits of \$85.8 billion in 2019-20 and \$184.5 billion in 2020-21.

While the economic and fiscal outlook remains highly uncertain, the Federal Government is expecting activity to pick up in the September quarter 2020 by 1.5 per cent, with real GDP forecast to fall by 0.25 per cent in 2019-20 and by 2.5 per cent in 2020-21 overall.

Since the 2019-20 Mid-Year Economic and Fiscal Outlook (MYEFO), tax receipts have been revised down by \$31.7 billion in 2019-20 and \$63.9 billion in 2020-21. The downward revisions are reported across all major heads of revenue, consistent with falling average earnings, along with lower forecasts for employment and consumption in 2020-21.

Gross debt was \$684.3 billion (34.4 per cent of GDP) at 30 June 2020 and is expected to be \$851.9 billion (45.0 per cent of GDP) at 30 June 2021.

Net debt is expected to be \$488.2 billion (24.6 per cent of GDP) at 30 June 2020 and increase to \$677.1 billion (35.7 per cent of GDP) at 30 June 2021.

Since MYEFO, total payments have increased by \$58.0 billion in 2019-20 and increased by \$187.5 billion over the two years to 2020-21. Payment-related decisions largely reflect the Government's response to the COVID-19 pandemic and to the bushfires of 2019-20 as well as higher unemployment benefit payments.

The global economy is forecast to contract by 4.75 per cent in 2020, with falls widespread across countries. The global economy is forecast to expand by 5 per cent in 2021 due to the easing of containment measures and a gradual recovery in consumer and business confidence.

However, high unemployment, continued physical distancing restrictions, business restructuring, high levels of sovereign debt and ongoing uncertainty all weigh on the recovery. These factors are expected to leave most major economies below their pre-COVID-19 levels of activity until at least the end of 2021.

The [key policy measures](#) from the Federal Government include:

- \$9.4 billion for the COVID-19 health response
- Extend JobKeeper Payment to March 2021 at a total cost of \$86 billion
- Extend the Coronavirus Supplement at a reduced rate to 31 December 2020
- Economic Support Payments costing \$9 billion
- Early access to superannuation applications extended to 31 December 2020
- Halving superannuation minimum drawdown requirements for the 2019-20 and 2020-21 income years
- Reducing the upper and lower social security deeming rates from 1 May 2020
- Cash flow boost payments with over 750,000 entities receiving over \$16 billion in support as at 16 July 2020
- Extension of instant asset write-off to 31 December 2020
- \$2 billion JobTrainer Skills Package
- SME Guarantee Scheme which has provided over \$1.5 billion in loans
- \$1 billion COVID-19 Relief and Recovery Fund
- \$680 million in 2020-21 through the HomeBuilder program, and
- \$2 billion National Bushfire Recovery Fund.

Summary

Key points from the Federal Government's Economic and Fiscal Update and earlier announcements.

RECESSION AND DEFICITS

Real GDP forecast to fall in 2019-20 and 2021-21.

Tax receipts down by \$32 billion in 2019-20 and \$64 billion in 2020-21.

Gross debt expected to be at \$852 billion or 45 per cent of GDP at 30 June 2021.

Total payments increased by \$188 billion over the two years to 2020-21.

Budget deficits of \$86 billion in 2019-20 and \$185 billion in 2020-21.

JOBKEEPER EXTENSION

JobKeeper will be extended to 28 March 2021 with changes commencing 28 September 2020.

Eligibility conditions have been refined.

Two tiers based on hours worked have been introduced.

Payment amounts reduced.

CORONAVIRUS SME GUARANTEE SCHEME

Scheme extended to 30 June 2021.

Enhancements from 1 October.

COVID-19 RELIEF AND RECOVERY FUND

\$1 billion to support severely affected regions and sectors.

Sectors include aviation, forestry, fisheries, arts and tourism.

INCOME SUPPORT

From 25 September 2020 to 31 December 2020, the Coronavirus supplement amount reduced to \$250 per fortnight.

Changes to income taper test and access to payments effective from 25 September 2020.

JOBTRAINER SKILLS PACKAGE

Establish a \$1 billion JobTrainer Fund.

Extension and expansion of the Supporting Apprentices and Trainees wage subsidy to 31 March 2021.

OTHER PACKAGES

Extending early access to superannuation applications to 31 December 2020.

Instant asset write-off extended to 31 December 2020.

HomeBuilder program

JOBKEEPER PAYMENT

The JobKeeper Payment, which was originally due to end on 27 September 2020, will now continue to be available to eligible businesses (including the self-employed) and not-for-profits until 28 March 2021.

The payment rate of \$1,500 per fortnight for eligible employees and business participants will be reduced and lower payment rates will apply for employees and business participants that worked fewer than 20 hours per week.

Two periods of extension of have been introduced:

- 28 September 2020 to 3 January 2021 (Period One), and
- 4 January 2021 to 28 March 2021 (Period Two).

If a business or not-for-profit does not meet the additional turnover tests for the extension period, this does not affect their eligibility prior to 28 September 2020.

JobKeeper remains open to new recipients provided they meet the existing eligibility requirements and the additional turnover tests during the extension period.

Other eligibility rules for businesses and not-for-profits and their employees remain unchanged.

Payment amounts

Fortnightly payment amounts will be tapered with a reduction to \$1200 for employees and business participants working 20 hours or more per week (full rate) for Period One and further falling to \$1000 for Period Two.

For employees and business participants working less than 20 hours per week (lower rate), the payment amount falls to \$750 for Period One and \$650 for Period Two.

Date	Full rate	Lower rate
To 27 Sep 2020		\$1500
28 Sep 2020 to 3 Jan 2021	\$1,200	\$750
4 Jan 2021 to 28 Mar 2021	\$1,000	\$650

Additional turnover tests

To continue to be eligible for the JobKeeper Payment after 27 September 2020, businesses and not-for-profits will be required to reassess their eligibility and meet a further decline in turnover test for each of the two periods of extension, as well as meeting the other existing eligibility requirements for the JobKeeper Payment.

The projected GST turnover test has been removed and businesses and not-for-profits will need to use **actual** GST turnover to calculate their decline in turnover.

The ATO has provided [guidance](#) on the application of the turnover test.

For Period One, businesses and not-for-profits will need to demonstrate that their actual GST turnover has fallen by the threshold amount in the both the June quarter 2020 (April, May and June) and the September quarter 2020 (July, August, September) relative to comparable periods (generally the corresponding quarters in 2019).

For Period Two, businesses and not-for-profits will again need to demonstrate that their actual GST turnover has fallen by the threshold amount in each of the June, September and December 2020 (October, November December) quarters relative to comparable periods (generally the corresponding quarters in 2019).

Date	Applicable turnover test period
28 Sep 2020 to 3 Jan 2021	Jun and Sep 2020 quarters
4 Jan 2021 to 28 Mar 2021	June, Sep and Dec 2020 quarters

The Commissioner of Taxation will have discretion to set out alternative tests that would establish eligibility in specific circumstances where it is not appropriate to compare actual turnover in a quarter in 2020 with actual turnover in a quarter in 2019, in line with the Commissioner's existing discretion.

The decline in turnover test thresholds remain the same at:

- 50 per cent for those with an aggregated turnover of more than \$1 billion,
- 30 per cent for those with an aggregated turnover of \$1 billion or less, or
- 15 per cent for Australian Charities and Not for profits Commission-registered charities (excluding schools and universities).

The introduced tests require consecutive quarters of decline in turnover and if the decline in turnover test is not satisfied for a particular quarter then the business or not-for-profit is no longer eligible to claim the JobKeeper Payment.

For example, a business in Victoria may have experienced a rebound in the June quarter 2020 but with the re-imposition of restrictions suffers a decline in the September quarter 2020.

Quarter ending	Decline in turnover	Eligible
30 Jun 2020	15%	No
30 Sep 2020	55%	No
Dec 2020	45%	No

With the introduction of two testing periods, a business or not-for-profit that is eligible for Period One will need to re-test its eligibility for Period Two.

Quarter ending	Decline in turnover	Eligible
30 Jun 2020	35%	Yes - Period One
30 Sep 2020	55%	Yes - Period One
31 Dec 2020	25%	No - Period Two

Employees

The eligibility rules for employees remain unchanged.

The 20 hour per week threshold will be based on the average hours worked per week in the four weeks of pay periods before 1 March 2020.

Eligible employees or business participants who were working in or actively engaged in the business or not-for-profit for 20 hours or more a week on average will receive the full rate of payment, with the lower rate applying to other eligible employees and business participant.

Next steps

Businesses and not-for-profits claiming JobKeeper should already have adjusted to reporting monthly actual GST turnover information to the ATO as part of the claims process.

This process becomes even more critical as accurate actual GST turnover data becomes the basis for determining eligibility for Periods One and Two of the extended JobKeeper Payment.

Given that Period One commences before the end of the September quarter and with only days between the end of the December quarter and the start of Period Two, ensure that GST reporting systems are up-to-date and reporting correct information in as close to real-time as possible.

The 20 hour per week test requires businesses and not-for-profits to calculate the hours worked by eligible employees and business participants throughout February 2020.

Payroll and human resources systems should contain the necessary information to calculate the average hours worked per week during this period.

It is essential that adequate documentation is available to demonstrate the basis of the 20 hours per week calculation and decline in actual GST turnover in the event of ATO compliance checks.

Further information is available from [Treasury](#) and the [ATO](#).

JOBKEEPER REVIEW

The JobKeeper Program (the Program) had three objectives:

- supporting business and job survival
- preserving the employment relationship, and
- providing needed income support.

The Treasury Review (the Review) found that program has had large take-up, at over 920,000 organisations and around 3.5 million individuals over the April-May period, representing 30 per cent of pre-COVID-19 levels of private sector employment (as at February 2020). As at 23 June 2020, JobKeeper payments totalled \$20.3 billion over the four payment fortnights to 24 May.

Payments went to businesses that experienced an average decline in turnover in April 2020 of 37 per cent against the same month a year previous (compared with a 4 per cent decline for other businesses); and it went to businesses at which the job separation rate had doubled following the introduction of operating restrictions just before JobKeeper was introduced (compared with no change in other businesses).

However the Review noted the Program distorts wage relativities between lower and higher paid jobs, dampens incentives to work, hampers labour mobility and the reallocation of workers to more productive roles, and keeps businesses afloat that would not be viable without ongoing support.

Sole traders make up 40 per cent of organisations which received the JobKeeper Payment for April, but just 12 per cent of individual recipients.

The Review observes that the introduction of JobKeeper put a brake on the rapid employment decline that commenced in the second half of March 2020. ABS data show that payroll jobs fell by 8.1 per cent over a four-week period (ending 11 April) and have been broadly stable since that time, picking up by 1.0 per cent during May.

An ABS survey found that 44 per cent of businesses reported that the announcement of the JobKeeper Payment influenced their decision to continue to employ staff.

The Review found that around a quarter of JobKeeper recipients had an income increase in their JobKeeper job relative to their February earnings in that same job. The value of the income increase was around \$130 when averaged across all JobKeeper recipients, and around \$550 for those receiving the increase in income.

Incentives to work, labour mobility, business viability, and compliance and integrity were also considered.

The Review highlighted the following considerations for Government.

Eligibility requirements

Under the original JobKeeper rules, the eligibility requirements only need to be met once, at the point of application. Considering the more favourable circumstances of some businesses, the Review suggested reassessing eligibility using a fresh test of turnover decline, using actual turnover change rather than projected change when businesses first applied.

The Review did not support a re-assessment of eligibility for the September quarter, but recommended eligibility be reassessed if JobKeeper were extended beyond September.

Reducing payment amounts

Lowering payments was considered as part of a transition strategy to wean businesses off support and having them meet a greater share of their own wages bill as economic conditions improve. The case for lowering payments for some employees is to remove, or lessen, the adverse incentives that arise from the flat payment.

The Review recommended any move to a lower payment for some employees should be aligned with any changes to JobSeeker support but noted it was not clear that the net benefit of these changes would be positive for such a time-limited program.

Duration

The Review found the case for extending the JobKeeper Payment beyond September is strong, especially if coupled with a fresh eligibility test that targets support to those businesses and sectors that continue to need it.

CPA AUSTRALIA ACTIVITIES

Throughout the COVID-19 pandemic, CPA Australia has been actively engaging with Government, the Treasury, regulatory authorities and administrators to provide feedback and recommendations on policy and administrative issues.

Our policy positions are set out in our [Post-COVID-19 pandemic policy bulletin](#) encompassing:

- sustainable recovery and building for the future
- an environmentally sustainable future
- an effectively funded future
- retirement system certainty, and
- red tape reduction.

We have been active in communicating to our members and the media about issues raised in relation to the economic stimulus measures.

Our [media releases](#) include our statements on JobKeeper, the Economic and Fiscal Update and business recovery.

In relation to tax and ATO-administered measures, our policy advisers and nominated members represent CPA Australia at regular meetings of:

- ATO National Tax Liaison Group
- ATO Tax Practitioner Stewardship Group
- ATO Consultation Steering Group
- ATO GST Stewardship Group
- ATO Foreign Investment Stakeholder Group
- ATO FBT Working Group, and
- Tax Practitioners Board Consultative Forum.

Throughout the COVID-19 pandemic, we have also met regularly with senior officials and advisors from a range of departments to discuss issues and provide expert feedback.

Further information on our submissions and policy activities are available on our [COVID-19 Resource Hub](#).

We have also been working closely with our fellow professional associations, preparing a number of joint submissions and attending regular meetings with key officials and agencies together.

Most recently, we [recommended](#) the Government consider support for new businesses and start-ups that are ineligible for JobKeeper and cash flow boost payments and [written](#) to the Victorian Premier to request authorisation for tax practitioners to continue operating the event of a Stage 4 lockdown in Victoria.

We have also [committed](#) to assisting Treasury and the ATO over the coming months to support the development of clear legislation, rules and guidance as well as to provide the views of the profession.

Contact us at policy.advocacy@cpaaustralia.com.au

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