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COVID-19 Financial strategies

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This information in this E-Book provides a summary of the various Covid-19 Stimulus packages available and the steps you can take as a business and an individual to manage such a challenging, and for some, a devastating time.

We highly recommend that if you have not done so, you need to contact your accountant. If your accountant is unable to assist you, please feel free to call us at Roy A McDonald & Lindale Insurances on (03)9848 5933. Whilst we are adhering to the restrictions and not taking face to face appointments, we can most certainly arrange times – quite quickly – and we are communicating via telephone, zoom, skype or email.

The checklist & strategies that we are recommending at the present time include:

1. Update Your Financial Records - this provides a true financial picture including figures around wages, cash flow and profitability. These figures are necessary to apply for some of the government subsidies that require proof of the decline in revenue as well as qualifying criteria for things like the Job Keeper payments. It also reflects a true picture of your tax position which will help decide if we need to look at deferral of any tax obligations.
2. Prepare a Cash Flow Budget & Forecast
3. Apply for Government Stimulus Incentives - Federal Government Cash Boost of between \$20k and \$100k for eligible businesses
4. Apply for State Government Subsidies & Grants - state by state it varies but for example, Victoria and NSW are offering \$10k payments for eligible businesses.
5. Job Keeper Entitlements - with updated payroll records we can assess any entitlements.
6. Understand the Loan Concessions provided by the banks
7. Tax Office Deferral Options
8. Marketing Plan – every business needs a new marketing plan.

So, let us look at some of our recommended strategies:

1. Recession Proofing & Rescuing Your Business:

We are certainly living in unprecedented times. Whilst there have been recessions in the 80's, the early 90's, and economic slowdowns and challenges in 2000 and 2008, nothing has prepared us for what we are living through at this time – a worldwide pandemic.

The coronavirus pandemic has affected the entire world and we have never, in our lifetimes, experienced the shutdown, lockdown and restrictions that have been placed upon us.

The consequences of the health impact alone is devastating but we have only just begun to see the effect to businesses. Unfortunately, there will be more negative consequences that unfold as time moves on.

Many businesses and households are already severely affected. The early days of the Stage 3 restrictions highlighted long lines outside Centrelink. The unemployment rate will increase exponentially and the last recession-like economy in Australia wiped out almost 75,000 businesses. People were defeatedly walking into banks and leaving their house keys on the tellers' benches.

The sad truth is that no one will be unaffected by this pandemic.

Businesses collapsing and in distress coupled with job losses has spurred the Government to put together various support packages to assist as many people as possible to stay in business and to maintain jobs.

Before we take a closer look at these stimulus packages there is something very important that needs to be said - despite the high anxiety, distress and panic that you may be feeling at present, it is NOT the time make choices and decisions in a panicked state.

Any decisions made in haste as a knee jerk reaction and panicked will invariably herald more problems.

This is a time to remain calm and find ways to ensure that your business can stay afloat and as an individual you also find a way to maintain your equilibrium in order to find solutions rather than creating more problems for yourself. Decisions at this time, must be made with a cool head, a calm mind and based on data that supports the right choice.

As a business it is essential to spend time working ON your business. Take a birds eye view and also a very detailed view of your business and its components to see what you can do to ensure you significantly minimise the effects of this pandemic so you increase your ability to continue your business after these restrictions are removed and through the inevitable recession.

Let's not forget something very important – No one has a crystal ball so no one really knows exactly what will or will not happen as far as the actual virus is concerned. Has it reached its peak? Will it peak once the restrictions are lifted and people come together again? Will that mean we go back into shutdown mode? Will there even be a recession? If there is what will it look like? What will that look like for your business and your household both now and long term?

We don't have the answers to these questions. None of us have. All we can reliably say is that everything has changed.

However, whilst we don't have a crystal ball to predict the future there certainly are measures and strategies available to analyse and assist to recession proof your business as much as possible.

The data, records and figures will be the basis of working out exactly and with clarity where your business stands now and what will happen with various scenarios.

It is imperative your financial records are up to date right now so that you can clearly make the right choices and decisions for where you are right at this point in time and to at least cover the "worst case scenario". You will need all your information up to date if you are going to refinance or apply for any of the support packages.

i. **Budgeting & Cashflow Forecasting & Other Measures**

Whilst financial accounts will give you a Balance Sheet and Profit & Loss figures that are useful, they are also based on *historical* data. So we highly recommend that you create a Cash Flow Budget based on *current* figures. This will also be the basis of your Cash Flow Forecasts.

A cash flow budget gives you a clear picture and knowledge of exactly where your business stands in real time and what you can do to improve the situation. You can incorporate various scenarios that will show you the results immediately. You should ensure you have a cash flow forecast for 3 month's time, 6 month's time, 12 month's, 18 month's and up to 2 years at this present time.

It is the most effective tool regarding:

- Scenario planning
- Pricing
- Potential cash shortages
- Likely cash position
- Plan tax payments
- Seasonal peaks & troughs
- Staffing considerations
- Tax Planning
- Profit maximisation
- Stock

and much more. It is an invaluable tool for all businesses at any time, but particularly so in the current climate.

There are many other actions that you will need to take at this time but without the financial records and the cash flow projections it is like swimming in deep water in the dark – who knows where you are going or where you might end up.

Other components of the business that need analysis at this time and that will yield excellent information include:

- Debtors – Accounts Receivable
- Creditors – Accounts Payable
- Suppliers
- Work in Progress

ii. **Business Pivots & Change**

It is essential at the moment to take a very good look at your business and start to think of ways to add, subtract and pivot quickly to ensure that you stay viable.

The analysis and planning of your business, at this time, is absolutely necessary but so is the ability to both think outside the box and get very creative.

Whilst there is a lot of instability, uncertainty and challenges, there are also opportunities available. It would be an advantage to be tech savvy but even if you are not, there are so many ways to easily and without much effort to diversify online.

What do I mean by being “creative”? I don’t mean be creative with figures. The tax office is very strict about this and has anti avoidance measures in place. What I mean is:

Say for example you have a corner takeaway shop in an industrial type area and you relied on your customers to come and sit down and eat their lunch or buy their food as takeaway and now you have had to close down the seating area and the takeaways are almost nonexistent because businesses around you have closed. What can you do?

Firstly, as suggested, get all your financials in order as well as ensuring you have a Cash Flow Budget & Forecast available. Next, evaluate which of the stimulus packages your business or you may be eligible for.

And then ask yourself, what can you do *now* to add to your business offering? Is it possible to add a delivery section? Is it possible to put your business on Uber Eats? Is it possible to offer takeaway meals for all the healthcare & retail workers so they don't have to think about having to go home and cook after a long stressful day at work?

Can you put yourself online and offer 4 of your best recipes for free and if people want more, set up a monthly membership and you can do cooking demonstrations?

Can you add all of these to your business?

Another example is for the beauty industry. As a hairdresser can you put together a package of hair colouring for your customers or potential customers and then put together a "How To" video? Or if you provide a nail service, could you offer a package of all the goods required and then offer a one on one meeting either via zoom or skype and teach your customers how to apply their own nails?

The ideas and possibilities are limited only by the imagination.

Once you have your ideas the questions then are:

How much will this all cost and what effect will it have on your bottom line?

Your cash flow budget & projection will help in answering many of these questions.

iii. Risk Analysis

Some people may have already considered a pandemic as part of their overall planning and made contingency plans. Most small & medium sized businesses in Australia will most likely never have considered this.

However, now is the time, whilst engaged in your business analysis and planning to ensure you identify any further risks to the business and minimise or eliminate these.

Apart from the pandemic, examples of other risk factors that can adversely affect your business might include:

- Fire
- The landlord not renewing the lease
- What if your strategic supplier goes out of business or doubles their price?
- What if your IT system crashes?
- What if a key staff member is no longer available through illness or resignation?
- Are your insurances in place and up to date?
- What happens if, as the owner of the business, you take ill or can no longer work?

Your specific business needs to:

1. Identify risks
2. Minimise or eliminate these risks
3. Determine & Plan your recovery contingencies
4. Communicate the plan to all the people it refers to

iv Marketing

As a business owner this is not the time to disregard your marketing strategies. During a time such as this you need to take very good care of your clients, especially your loyal clients. It is important to keep in regular contact and ensure that they know you appreciate, value and respect their continued support.

You may need to take into account your current pricing and ensure that you do not hand your clients or potential clients over to your competitors. Whilst the value you place on your product or service may be premium and top dollar, you may need to assess whether you can afford to offer that same premium service or product at a reduced price. Again, I will reiterate that you can only really know your lowest acceptable price point that will keep your business viable by doing a cash flow budget and forecast.

It is vitally important to contact your existing customers and talk to them. Find out how they are dealing with the challenging times and see what services and products you can offer them that will in fact be extremely helpful and valuable at this time.

It is only during these discussions that other problems may arise for your customers and clients that you had not considered but for which you may have the solutions... another business pivot.

Whilst income is of utmost importance for all businesses and cash flow is king, you also need to be able to identify those expenses that you can cut, negotiate and eliminate.

This is most definitely the time to negotiate your rent and lease, check and demand better insurance deals. Negotiate with your bank for better fees & charges (e.g. reduce merchant fees from 2% to 1.5%) and reduction of interest rates on business loans.

Take a very close look at all your telecommunications – mobiles, internet, land lines and find the best deal for your business.

Whilst reducing staff may be necessary, be careful not to lose well trained, quality staff to your competitors. Involve your staff in improving your business and ensure that you reward them and make them feel valued for their input and ideas.

These suggestions and strategic plans can also be applied as effectively to your own personal household.

A household budget will give you valuable and priceless information as to your current financial situation.

You will be able to clearly see where there is any unnecessary expenditure that can be culled and you can similarly invest time in negotiating better home loan and personal loan interest rates, check your credit card and see if you can find a better deal, check all your various app subscriptions and perhaps decide if you really need Netflix, Stan & Foxtel at the moment, renegotiate your

telecommunications and speak to your utility suppliers to see what they can do for you.

If you have a side business or hobby, you may even be able to spend time working on it and try to make it a viable and profitable business.

There are many ways that you can take the initiative and feel like you have more control over your situation. Your accountant can most certainly help and assist with information, registrations and record keeping for startup businesses.

2. Government Stimulus Packages Available

The Government – both Federal & State have announced stimulus packages for Businesses & Individuals.

Government Stimulus support for Business & Employers includes:

1. Cashflow boost for Employers

The intention is to support employment. The incentive is tied to the tax withheld from employees' wages.

The delivery of this assistance will be via the Tax System through the lodgment of Business Activity Statements.

If an entity pays wages, you would expect to see the following:

- The employer register for PAYG
- Pay Super Guarantee
- Report via Single Touch Payroll.

The amount that will be provided is a tax free boost between \$20,000 and \$100,000.

Eligible businesses do not need to apply by completing any specific forms. It will be delivered through credits in the Activity Statement system when eligible businesses lodge their BAS.

People need to be aware that this cash boost is not received as actual money into your bank account. It is credited to your account.

The first credit will be made on 28 April 2020.

Eligibility:

Businesses will be eligible to receive the cash flow for employers boost if they are a small or medium sized business that:

- Held an ABN on 12 March 2020
- Has an aggregated annual turnover under \$50 million (generally based on prior year turnover)
- Made eligible payments that the business is required to withhold (even if the amount required to be withheld is zero)
- The business must have derived income in the 2018-2019 income year and lodged its 2019 income tax return on or before 12 March 2020; or
- Made GST taxable, GST free or input-taxed sales in a previous tax period (since 1 Jul 2018) and lodged the relevant activity statement on or before 12 March 2020

Eligible payments include:

- Salary & wages
- Directors' fees
- Eligible retirement or termination payments
- Compensation payments
- Voluntary withholding from payments to contractors

The initial credit will be delivered as of 28 April 2020.

Quarterly BAS lodgers will receive a credit for the total amount of tax withheld at W2. 100% of this amount will be credited up to the limit of \$50,000 and a minimum of \$10,000.

Monthly lodgers will receive 3 times the amount withheld up to a maximum \$50,000.

There will be a second cash flow boost to be credited after the September 2020 quarter BAS is lodged.

If a lodgment deferral has been granted by the ATO, the cash flow boost will generally be made at the time of the deferred lodgment.

This ensures that eligible entities that have received deferrals, for example, due to recent natural disasters, do not miss out on the payment or have to forgo their extended time to lodge.

The cash flow boost will essentially be applied to reduce the liabilities arising from the same activity statement. This will result in eligible entities being required to pay less to the ATO.

All cash flow boosts are tax free and are not required to be paid back.

The full details are available at www.treasury.gov.au

2. JobKeeper Payment:

The intent of this policy is to support businesses to retain jobs. It is a temporary scheme that will pay up to \$1,500 per fortnight per employee to eligible employers until 27 September 2020. Applications are available from Monday 20th April 2020.

Self-employed individuals will be eligible to receive the JobKeeper subsidy where they meet the relevant turnover test and are not a permanent employee of another employer.

To be eligible, at the time of applying:

- As at 1st March 2020 you carried on a business in Australia with at least 1 employee though sole traders are also eligible for Jobkeeper payment if their business has experienced a downturn

- The business must have an aggregated turnover of less than \$1 billion and they estimate the turnover has fallen or will likely fall by 30% or more
- The business has an annual turnover of \$1 billion or more and they estimate their turnover has fallen or will likely fall by 50% or more
- The business is not subject to the Major Bank Levy – which most of the Small & Medium sized businesses we are talking to will not be.

Turnover is calculated as it is for GST purposes and is reported on the BAS. It includes all taxable supplies and all GST free supplies but not input taxed supplies.

You only need to satisfy the fall in turnover requirement once. To calculate your fall in turnover, you can do so by comparing either:

1. GST turnover for March 2020 with GST turnover for March 2019; or
2. Projected GST turnover for April 2020 with GST turnover for April 2019
3. Projected GST turnover for the quarter starting 1 April 2020 to the quarter starting 1 April 2019.

For those businesses not operational a year earlier but are adversely affected, the Tax Commissioner has discretion to consider additional information that the business provides to establish and prove they have in fact been adversely affected. For example, if you purchased a café in January 2020, and you have had to close or your business has been restricted to trade as normal, then you can apply and provide up to date financials showing the fall and the Tax Commissioner will use his discretion as to whether the business has been impacted adversely. Businesses that are in liquidation will not be eligible for this payment.

Employers need to elect to participate in the scheme. Applications are made via the ATO and supporting documentation is required to demonstrate the downturn in business – this will open on 20th April 2020.

Eligible employers will receive the payment for each eligible employee that was on their books at 1 March 2020.

Eligible employees include full timers, permanent part timers and casuals who have worked for greater than 12 months for the business, including those that have been stood down.

The subsidy starts on 30 March 2020 and as stated earlier, ends 27 September 2020.

For more details please visit www.treasury.gov.au

For assistance with your specific business, please speak to your accountant or call us on (03) 9848 5933.

3. Supporting Employers with apprentices & Trainees

The government is also supporting small business to retain their apprentices & trainees. Eligible employers can apply for a wage subsidy of 50% of the apprentice's or trainees' wages paid during the 9 months from 1 January 2020 to 30 September 2020.

Eligible businesses include those that employ fewer than 20 employees and who retain an apprentice or trainee and they must have been employed as at 1 March 2020.

Employers will be reimbursed up to a maximum of \$21,000 per eligible apprentice (\$7,000 per quarter).

Employers can register for the subsidy from early April 2020 with final claims for payment to be lodged by 31 December 2020.

For information on how to apply for the subsidy contact an Australian Apprenticeship Support Network (AASN) provider.

www.australianapprenticeships.gov.au

There are other stimulus packages measures that the government has brought in as a response to the coronavirus and whilst we will not go into detail about these today, they include:

1. Temporary relief for financially distressed businesses
2. Increasing the Instant Asset write off (threshold increased from \$30000 to \$150000)
3. Coronavirus SME Guarantee Scheme. The Government will guarantee 50% of new loans issued by eligible lenders to Small & Medium sized enterprises. It is available for new loans made by lenders until 30 September 2020 and its objective is to increase the willingness of lenders to support an otherwise viable SME to access vital additional funding to get through the impact of the coronavirus.

Business Support Fund

The Victorian Government has also granted an assistance package called the Business Support Fund to support small businesses hit hard by the pandemic restrictions.

Applications for a \$10,000 grant opened on 30 March 2020 and will close on 1 June 2020.

To register your interest you must go to:

www.business.vic.gov.au/support-for-your-business/grants-and-assistance/business-support-fund

The eligibility criteria includes:

- Employ staff
- Have been subject to closure or high impacted by Non Essential Activity Directions
- Have a turnover of more than \$75,000
- Have payroll of less than \$650,000
- Hold an ABN and have held that ABN at 16 March 2020
- Have been engaged in carrying out the operations of the business in Victoria at 16 March 2020

Households & Individuals

Some people are understandably a little confused regarding the definitions of JobKEEPER & JobSEEKER.

The JobKEEPER subsidy is for Employers so that they can KEEP their employees on the payroll. Therefore, if you are an eligible employee, your employer will apply for this and you will receive the payment via your employer.

JobSEEKER is for those individuals who are effectively “seeking” a job and need to apply via Centrelink. Centrelink will supply the Coronavirus supplement directly to the individual.

Jobseeker

The Government has responded to households and Individuals by providing Income support in the form of a JobSeeker payment

For the period of the coronavirus there will be expanded access to the income support payments available.

There is new time limited Coronavirus supplement to be paid at the rate of \$550 per fortnight for the next 6 months starting 27 April 2020. The supplement will be paid to both existing and new recipients that are eligible.

The payment adds up to around \$1100 per fortnight and it is taxable income.

Sole traders, self employed, & contract workers whose income has been reduced may be eligible, as are permanent employees who lost their jobs and those casuals not eligible for jobkeeper subsidy.

Some conditions to qualify have been waived temporarily

- Assets tests waived for 6 months
- Ordinary waiting period waived
- Liquid asset waiting period waived
- Partner income test temporarily increased to \$79,762 per annum or less than \$3068 per fortnight.

For more detailed eligibility criteria you can visit www.servicesaustralia.gov.au

You need to register your interest with Centrelink via your Mygov account.

Superannuation

The government is allowing individuals affected by the coronavirus to access up to \$10,000 of their superannuation in 2019-20 and a further \$10,000 in 2020-21.

We highly recommend that you get the best professional advice if you are going to consider applying for this measure.

For those receiving superannuation pension streams the minimum pension payments have been reduced as follows:

Self Managed Superannuation Minimum Pension Reductions:

The New reduced Minimum Pension percentages for 2019/2020 and 2020/2021 financial years are as follows:

AGE	NEW REDUCED MINIMUM
Under 65	2%
65-74	2.5%
75-79	3%
80-84	3.5%
85-89	4.5%
90-94	5.5%
95+	7%