Market Update – 13 March 2020 including Fiscal Stimulus

As stated in our market update of 10 March, we hope you and your families are in good health and taking the necessary steps to remain that way as the coronavirus continues to spread globally.

This article covers the $17.6bn fiscal stimulus package announced by the Prime Minister on Thursday 12th March plus an update on financial markets.

Overview of the Fiscal Stimulus Package

The targeted stimulus package is focused on keeping Australians in jobs and helping small and medium sized businesses to stay in business. The measures are effective from 12 March 2020.

Relevant Details of the Package

Although there are many details of the package still to be clarified, the follow is a summary of what we know:

1. For individuals (welfare recipients)
   - A one off tax free payment of $750 to pensioners, social security, veteran and other income support recipients and eligible concession card holders (including Commonwealth Seniors Health Card).
     - Payments made principally in the first half of April 2020
     - Amounts won't be counted as income for Centrelink purposes.

Impact: The expectation is that this money will flow straight back into the economy as recipients use it to buy groceries and other essentials. Furthermore, it is understood the deeming rate for social security recipients will also be reduced, increasing social security payments for those assessed under the income test.

Action: Payments should flow automatically to recipients. Those who are currently applying for social security payments or for the Commonwealth Seniors Health Card should ensure they stay on top of their application and respond in a timely manner for request for outstanding information.

2. For business (small, medium and large)
   - A refund of 50% of the BAS / IAS from 28 April with refunds within 14 days. Minimum tax free payment of $2,000 and maximum of $25,000 and applies to companies with a turnover of less than $50m that employ staff between 1 January 2020 and 30 June 2020.
   - A wage subsidy of 50% of an apprentice's or trainee's wage for up to 9 months from 1 January 2020 to 30 September 2020.
   - Increase of the instant write off for tax from $30,000 to $150,000 and expanding to include businesses with turnover of less than $500m (previously $50m)
   - Accelerated tax depreciation of 50% of the asset in the year of purchase through to 30 June 2021.
   - Support those disproportionately affected by the economic impacts of the coronavirus e.g. tourism businesses around the Great Barrier Reef
     - Waiver of fees and charges
     - Deferral of tax payments for up to four months.

Impact: The refund of up to $25,000 based on amounts in the BAS / IAS will soften cashflow pressure for businesses as revenue starts to fall off. This is likely to have a larger relative impact on small businesses especially those in the service industry and hence assist with supporting their workforce.

The wage subsidy measures are likely to encourage employers to retain apprentices / trainees at a time when they may be letting staff go. The depreciation changes may result in a significant amount of capital expenditure being brought forward to the current tax year (or next), possibly funded by debt. However the deduction for tax purposes is only of benefit if the business is making a taxable profit. The ability to receive the capital items "installed or ready for use" prior to 30 June 2020 may be problematic.

Action: We would always encourage businesses to lodge and pay their BAS / IAS on time. However, the BAS / IAS payment may have to be made in full before the refund is claimed. Employers should think twice before laying off an apprentice or trainee. Finally businesses should prioritise the consideration of their capital expenditure requirements over the next year so that, where appropriate, the items can be ordered with a chance of receipt prior to 30 June 2020.

Market Update, Opportunities and Conclusion

We continue to see investment markets fall as countries and regions start to close their borders to foreigners and restrict large gatherings. The rest of Europe will soon follow Italy and the US, as will Australia.

As stated in the Market Update of 10 March, the situation remains very fluid and unpredictable. However, we suggest that investors who are fully invested should stick to their guns and see out the volatility. Markets are down and, although we may not yet have seen the bottom of the market, now is not the best time to sell.

Those with significant cash balances may take this as a buying opportunity in the next few weeks whilst markets are down from February highs. Indeed, with bonds at record lows, selling fixed interest investments and moving overweight to equities in the short term may assist in boosting long term returns.

Please note that the information above is general in nature and does not take into account your personal circumstances, financial needs or objectives. Before acting on this information, you should consider its appropriateness having regard to your objectives, financial situation and needs. In particular, you should speak to Kevin Smith of The Professional Super Advisers on (02) 9955 5800 prior to acting upon this information.