

## Explanation of cash flow assistance for businesses

On 22 March 2020 the Federal Government announced that it would provide a tax free payment of up to \$100,000 for eligible small and medium sized businesses that employ workers who withhold Pay As You Go (PAYG) tax from salary and wages.

Equivalent relief will also be provided to eligible not-for-profit entities (including charities) who employ staff.

This announcement has been subsequently legislated as the *Boosting Cash Flow for Employers (Coronavirus Economic Response Package) Act 2020* which received Royal Assent on 24 March 2020.

Broadly, to be eligible a business entity's prior year aggregated annual turnover must be less than \$50 million, and the entity must have an ABN and derived assessable income from carrying on a business or after 1 July 2018 and before 12 March 2020.

### How the cash injection will work

The cash stimulus provided to eligible entities will be automatically calculated by the ATO and will be provided in two instalments in relation to the period 31 March 2020 to 30 September 2020.

No new forms need to be completed to obtain these payments.

The ATO will deliver the above payments as credits upon lodgment of an entity's Business Activity Statement (BAS) over the above period with credits starting to be available from 28 April 2020.

In practice the credit will generally be applied to reduce liabilities arising from the same BAS resulting in entities being required to pay less to the Commissioner of Taxation.

Where the amount of the credit exceeds the entity's other tax liabilities that excess amount will be refunded by the ATO who will deliver that refund to the entity within 14 days.

The cash flow boost is available to all business and not-for-profit entities that make eligible payments, including individuals that carry on a business as a sole trader, partnerships and trusts provided they satisfy the eligibility requirements.

Eligible payments include salary and wages but can also include director's fees and payments to contractors that are subject to voluntary PAYG tax withholding arrangements.

### First instalment from March 2020

The first instalment will be provided as a credit in an entity's BAS lodged for the period between 31 March 2020 to 30 June 2020 in relation to the Pay As You Go (PAYG) tax withheld from the salary and wages of employees or other remunerative payments (e.g. directors fees) which are subject to PAYG tax withholding.

The amount of the credit is determined by the amount of PAYG tax required to be withheld.

However, the minimum amount of the credit payable is \$10,000 whilst the maximum amount is capped to \$50,000.

The timing of the credit depends on whether the entity lodges a BAS on a monthly or quarterly basis, and when the entity has fully utilised the cap available.

Monthly lodgers will be eligible to receive the payment for the month ended 31 March 2020 (and successively in the months ended 30 April 2020, 31 May 2020 and 30 June 2020 until the cap is fully utilised).

The amount of the credit for a monthly lodger will be three times the amount (i.e. 300%) of the PAYG tax withheld in the 31 March 2020 quarter.

This 300% grossed up rate mirrors the 100% PAYG credit available to quarterly lodgers who have withheld PAYG in each of the three months for the March quarter.

For example, if the PAYG tax withheld by a monthly lodger on their BAS for the month ended 31 March 2020 was \$15,008 the credit arising in the BAS for that month will be \$45,024 (i.e. \$15,008 X 3). A further credit of \$4,976 will arise in respect of that entity's BAS for the month ended 30 April 2020 before the \$50,000 cap is met.

Similarly, if the \$50,000 cap is not fully applied by such an entity in the March and April periods the balance of any remaining credit can be successively utilised by the monthly lodger in respect of the May and June periods until it is fully used.

Quarterly lodgers will be eligible to receive the credit in respect of the quarters ended 31 March 2020 and 30 June 2020. The amount of the credit will be for 100% of the PAYG withheld for the relevant quarter. To the extent that the credit is not fully utilised for the quarter ended 31 March 2020 any remaining credit can be carried forward and utilised in respect of the quarter ended 30 June 2020.

For example, if the PAYG withheld by for a quarterly lodger on their BAS for the quarter ended 31 March 2020 was \$36,000 a credit for that amount will arise in respect of that quarter. In these circumstances a credit for the balance of \$14,000 is also potentially available in relation to the quarter ended 30 June 2020 under the \$50,000 cap.

Special rules apply if an entity changes from an entity that withholds monthly to an entity that withholds quarterly (or vice versa) to ensure that there can be no uncounted or double counted withheld amounts. Integrity rules will also apply to defeat artificial or contrived arrangements which are entered into by businesses to obtain the 'cash flow boost' credit.

Eligible businesses that pay salary and wages will also receive a minimum payment of \$10,000 in respect of their BAS for 31 March 2020 even if they are not required to withhold tax from such amounts.

## Second instalment from 30 June 2020 to 30 September 2020

A second cash flow boost credit will arise in relation to an entity's lodged activity statements for the period between 30 June 2020 and 30 September 2020.

This second instalment is available to all entities that received any amount of the first cash flow boost, even if the circumstances of the entity have subsequently changed, provided the entity lodges a BAS return for the relevant period.

Broadly, under the second instalment eligible entities will receive an additional credit for this period equal to the total of the credit received under the first instalment.

Accordingly, an eligible entity that received a credit of \$50,000 under the first instalment will receive a credit of \$50,000 under the second instalment.

For monthly lodgers the additional payment will be delivered as an automatic credit in an entity's lodged activity statements for the months ended 30 June 2020, 31 July 2020, 31 August 2020 and 30 September 2020.

The amount of that credit will be one-quarter of the credit that was received by the entity under the first instalment of the credit regime. For example, if the monthly lodger received a \$50,000 credit in their BAS for the month ended 31 March 2020 that entity will receive a credit of \$12,500 for each of the monthly BAS lodged for 30 June 2020, 31 July 2020, 31 August 2020 and 30 September 2020.

For quarterly lodgers the additional payment will be delivered as an automatic credit for half of their credit under the first instalment in the respective BAS lodged for the quarters ended 30 June 2020 and 30 September 2020. Accordingly, if a quarterly lodger was entitled to \$50,000 under the first instalment a credit of \$25,000 will arise in respect of each BAS lodged for the quarters ended 30 June 2020 and 30 September 2020 under the second instalment.

Eligible employers who paid salary and wages to staff but did not withhold PAYG tax from such payments will also be entitled to a \$10,000 credit under the second instalment if they were entitled to an equivalent credit of \$10,000 under the first instalment. This credit will be received as an additional credit of \$5,000 in respect of each BAS lodged for the quarters ended 30 June 2020 and 30 September 2020.

## Further information

The *Boosting Cash Flow for Employers (Coronavirus Economic Response Package) Bill 2020* and the accompanying explanatory memorandum can be downloaded from the [Commonwealth Parliament's website](#)

BNR Partners will be closely liaising with the ATO on the administration of the cash flow boost payments and will keep you apprised of developments.

Other stimulus package measures have also been legislated which can be found at <https://www.aph.gov.au/>

Fact sheets and other information on the stimulus measures announced by the Federal Government in respect of the Coronavirus as they affect businesses, individuals and households can also be downloaded at <https://treasury.gov.au/coronavirus>