

Client Update – 23rd March 2020

The Government's package to support the economy has some interesting aspects to it. The package beneficiaries are businesses with a turnover of less than \$50 million, Centrelink recipients and superannuants.

The Government expects its latest package to cost around \$66.1 Billion raising the cost of all announced measures from the Government and the RBA to around \$189 Billion.

The question for the Government and its announced measures is how long the disruption from COVID-19 lasts and whether the government will need to introduce further assistance in a few months time.

The Government has indicated they will apply a 'whatever it takes' approach to minimise the impact of this disruption. However, minimise is often a matter of degree. Denmark for example is spending 13% of their GDP on relief measures in the next 3 months and if they are required to extend those measures for another 3 months at the same rate the GDP cost will be approx. 25%. Costs can easily escalate as it is not known how the COVID-19 pandemic will develop.

The key measures announced to date are:

Superannuants

Drawdown Requirements.

The default rate and consequently the minimum drawdown (Payment) requirements for Account Based Pensions (ABP) and similar products will be halved for FY20 and FY21.

For example, the default rate for a 67 year old fund member receiving an ABP payment is a minimum payment of 5% of the preceding FY fund closing balance per annum. This minimum is now halved to 2.5%.

Some points to note – the FY20 reduction is only for the remainder of this year, you cannot return pension already paid above your new minimum to the super fund. For FY21 the default can be calculated in advance and the payments over the year can be reduced to the respective temporary requirement. The minimum payment required will revert to your relevant default minimums for FY 22.

If you don't need to take the full pension payment - don't. It will leave more capital in Super with its concessional tax treatment.

If you require a pension payment above the temporary minimums and have funds outside of super, reduce your pension accordingly and use your funds outside of super to top up your income.

These options should be discussed before you action them to ensure the best outcome for you.

Early Release of superannuation

Up to \$10,000 may be accessed by a member from super in FY20 and another \$10,000 in FY21 if:

- unemployed
- working hours were reduced by 20% or more
- a sole trader and your business is suspended or your turnover is reduced by 20% or more

There are some additional requirements for a SMSF which are still to be clarified by the ATO.

If an amount less than the \$10,000 maximum is selected, you cannot make a second payment to use the \$10,000 cap at a later stage.

This also appears to be a self-certification of meeting a condition of release. The ATO provides a determination to the super fund which then makes the payment. I expect the ATO is likely to audit a selection of the self-certifications to ensure compliance with the conditions of release.

Small Business Temporary Cash Flow Support

Not for Profits (NFPs) including charities and small business entities with a turnover of less than \$50 million which employ workers benefit from this. The \$50 million eligibility cap is based upon the previous tax years turnover and the business must have been established prior to March 12, 2020. NFPs and Charities registered with the Australian Charities and Not-for-profits Commission will be eligible regardless of their date of establishment.

Employers will receive a payment equivalent to 100% of salary and wages withheld. The maximum payment is now \$50,000 with a minimum of \$10,000. This payment is based upon the PAYG withholding in March and is accounted for in March, April, May and June

The government will also pay the same amount again between July and October 2020 based upon the payment made in FY20.

To receive the additional payment outlined in the new package the business must remain active.



Hamilton Wealth Partners is a Fee for Service, Wealth Management business and as such our advice is built around the conviction to our process and philosophy and our strong belief in diversification.

We would be happy to discuss this further with you, please don't hesitate to contact us.

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