

Barton Deakin Brief: Second Federal Economic Stimulus Package

22 March 2020

Overview

Today, Prime Minister Scott Morrison and Treasurer Josh Frydenberg [announced](#) an additional [\\$66.1 billion in the second stimulus spending package](#) to cushion the effects of the Covid-19 pandemic on the economy. This measure, combined with the first \$17.6 billion package and the \$90 billion and \$15 billion injected into the financial system by the Reserve Bank of Australia and Government respectively, cumulates to \$189 billion or 9.7 per cent of GDP in total stimulus.

The four main objectives still hold: encouraging business investment, supporting small and medium businesses, targeted funding for severely affected sectors and communities, and household stimulus payments. The Prime Minister has emphasised that all measures must be sustainable for at least a six-month horizon and scalable as the real nature of the situation becomes apparent.

Today's package comprises three parts with ten separate initiatives. Part one focuses on households, supporting sole traders, casual workers, retirees and those on income support. Part two aims to support businesses to continue employing staff. Part three looks to provide regulatory protection and financial support so that businesses stay in business. These measures will directly benefit the 3.5 million small and medium-sized enterprises (SMEs).

The announcements today will either replace or work alongside other measures announced on the 12th March 2020. The previous measures included support for businesses with apprentices, an increase to the Instant Asset Write Off scheme, regional and community support and a \$2.4 billion health package. See the [Barton Deakin Brief](#) on the first Federal Government stimulus package for more information.

The Prime Minister indicated that the government will introduce further stimulus as regarded necessary.

For more information on State based responses to the Coronavirus crisis, see the current briefs from Barton Deakin and Hawker Britton: the [NSW Government package](#), the [Victorian Government economic and healthcare response](#), the [ACT Covid-19 Stimulus Package](#), the [Northern Territory Economic Response](#), the [Queensland Government response](#) and the [Western Australian Economic Stimulus Package](#).



Part One: Household and Worker Assistance

Coronavirus Supplement

Existing and new recipients of the JobSeeker Payment (formerly Newstart allowance), Youth Allowance jobseeker, Parenting Payment, Farm Household Allowance and Special Benefit will be paid \$550 per fortnight as part of the new temporary Coronavirus supplement to support household cash flow. This is an effective doubling of the existing JobSeeker allowance.

The Government has waived the assets test and waiting period in applying for the JobSeeker allowance.

This six-month measure will be paid to eligible recipients in addition to any existing support payments at an estimated cost of \$14.1 billion over the forward estimates period. Services Australia will employ up to 5,000 additional staff to support the delivery of the new Government measures.

Household Support

From the 13th July, the Government will be providing a further \$750 payment to social security, veteran income support recipients and eligible concession card holders, provided they are not already receiving an income support payment that is eligible for the Coronavirus supplement. This is in addition to the \$750 payment announced on the 12th March 2020 which will be paid from the 31st March. This second payment will benefit 5.2 million Australians at an estimated cost of \$4 billion over the forward estimates.

Early release of superannuation

In addition to the existing conditions for early release of superannuation, the Government will allow individuals in financial stress owing to the Coronavirus to withdraw up to \$10,000 from their superannuation this financial year and \$10,000 next financial year. These withdrawals will be tax-free and will not affect Centrelink or Veterans' Affairs payments.

To be considered an individual in 'financial stress', you must be; first, eligible for the Coronavirus supplement, and second, be a sole trader or casual worker with a decrease of 20% or more in income or hours worked.

Treasury estimates this will cost approximately \$1.2 billion over the forward estimates but that it will put about \$27 billion of superannuation into the pockets of individuals. The Treasurer Josh Frydenberg and APRA assured that this withdrawal will equate to about one per cent of the \$3 trillion superannuation sector and that funds hold enough cash to make this payment.

Apply online through [myGov](https://my.gov.au).

Reduction in superannuation minimum drawdown rates

To allow retirees greater flexibility in how they manage their superannuation assets, the minimum drawdown requirements will be reduced by 50 per cent for this financial year and the next. The minimum drawdown rate currently starts at four per cent and increases with age, but will now start at two per cent.



Social Security Deeming Rates

The deeming rates have been further reduced from the last package to reflect the latest rate reductions announced by the Reserve Bank of Australia. From the 1st May, the lower deeming rate will be 0.25 per cent and the upper deeming rate will be 2.25 per cent. This measure will benefit about 900,000 income support recipients at an estimated cost of \$876 million over the forward estimates period.

See [here](#) for the Treasury fact sheet on the income support available for individuals.

Part Two: Support for Business

Businesses with an aggregated annual turnover of less than \$50 million per annum and that retain their staff will be eligible for an increased cash flow support payment of between \$20,000 and \$100,000. This payment has been extended to not-for-profits and charities with an estimated 30,000 organisations benefiting.

This new package will also see a payment available from the 28th April equal to 100 per cent (previously 50 per cent) of withheld salary and wages with a maximum of \$50,000 (previously \$25,000). The minimum payment is being increased to \$10,000 (previously \$2,000). Businesses are incentivised to keep workers on because the payments are linked to staff salary tax withholdings.

There will be an additional payment from the 28th July to eligible entities. The additional payment will be equal to the total of all of the 'Boosting Cash Flow for Employers' payments received.

These payments are tax-free and will be delivered automatically through the existing ATO systems – businesses will not need to apply. An estimated 690,000 businesses which employ 7.8 million people will benefit from these measures at a cost of \$31.9 billion over of the forward estimates (including the value of the measures announced in the first package).

Part Three: Regulatory protection and financial support for businesses to stay in business

Access to Capital

The Government is launching its Coronavirus SME Guarantee Scheme to assist businesses in accessing capital. This will be a 50:50 arrangement between eligible lenders and the Government in issuing unsecured loans to businesses. This scheme should encourage lenders to provide credit and will amount to an estimated \$20 billion in Government support for \$40 billion of total lending to SMEs.



Alongside the Government announcement to cut red-tape and the announcements made by the banks to support businesses in their existing loans, this will take the pressure of small and medium-sized businesses and allow them to access credit faster.

The Government had already committed to providing the Australian Office of Financial Management (AOFM) an investment capacity of \$15 billion to invest in wholesale funding markets used by small authorised deposit-taking institutions (ADIs) and non-ADI lenders. This is in addition to the \$90 billion term funding facility from the Reserve Bank for ADIs, which will lower the cost of lending, especially to small and medium enterprises.

Businesses in Financial Distress

Businesses that are otherwise financially profitable and viable will be protected by a regulatory shield if they are under financial pressure. First, the Government is proposing increasing the threshold at which a creditor can initiate insolvency or bankruptcy to \$20,000 (currently as low as \$2,000 today). Second, companies will also have six months to respond instead of the current 21 days. Third, directors who are trading while insolvent will have their personal liability relieved during this crisis. Fourth, the Government expects and accepts that companies will not be able to comply with the Corporations Act in such ways as holding general meetings. For the next six months, the Treasurer will be granted temporary powers to deal with these issues as they arise.

Further Information

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