

## Contents

Contents .....	1
What's New? Where to get Help if You Need it.....	1
Help for Businesses.....	1
Help for Individuals .....	4
JobKeeper Alert.....	4
JobKeeper and Termination Payments .....	5
Tax on Covid-19 Grants .....	5
The ATO on Covid-19 Fraud Warpath.....	5
Tip Lines, Tax Returns and STP.....	5
Three Million Individuals in Data Matching Program .	6
Working from Home .....	6
Covid-19 and Your SMSF .....	7
Early Release of Superannuation .....	7
Tenant Rent Relief.....	7
Relief for Related Party Loans.....	7
A Fall in Asset Values.....	7
Minimum Pension Payments .....	7
Has Covid-19 Devalued Your Business?.....	8
Funding for the Arts: What's Available and how You can get it.....	9
Forecasting During a Pandemic .....	10
Understand Where You Stand Now.....	10
Understanding Your Cost Structure .....	10
Plan, Review and Adjust.....	11
Understand the External Environment.....	11
Office Update .....	12

## What's New? Where to get Help if You Need it

### Help for Businesses

#### *JobKeeper 2.0*

The Government has announced further changes to the JobKeeper scheme. The good news is that employees that missed out on JobKeeper because they were not employed on 1 March 2020 might now be eligible. The proposed changes would enable employees employed on 1 July 2020 to receive JobKeeper payments from 3 August 2020 if they meet the other eligibility criteria. If you have employees impacted by this change, you will still need to work through the eligibility requirements, including providing a [JobKeeper Payment Employee Nomination](#), but remember that these changes are not yet law.

JobKeeper will also be extended beyond 27 September 2020. To receive JobKeeper from 28 September 2020, employers will need to reassess their eligibility with reference to actual GST turnover for the September 2020 quarter (for JobKeeper payments between 28 September and 3 January 2021), and again for the December 2020 quarter (for payments between 4 January 2021 and 28 March 2021).

Most businesses will generally use their business activity statement (BAS) reporting to assess eligibility. However, as the BAS is generally not due until the month after the end of the quarter, eligibility for JobKeeper will need to be assessed in advance of the BAS reporting deadlines to meet the wage condition for eligible employees. However, the ATO will have discretion to extend the time an entity has to pay employees in order to meet the wage condition.

From 28 September 2020 the payment rates for JobKeeper will reduce and split into a higher and lower rate. Whether an eligible employee can access the higher or lower rate will depend on the number of hours they worked during a four week test period. The higher rate will apply to employees who worked at least 20 hours a week on average in the four weeks of

pay periods prior to either 1 March 2020 or 1 July 2020. Between 28 September 2020 and 3 January 2021, the higher rate is \$1,200 per fortnight, and \$750 for the lower rate. Between 4 January and 28 March 2021, the higher rate is \$1,000 per fortnight and \$650 for the lower rate.

JobKeeper Payment Rate	30/3/2020 to 27/9/2020	28/9/2020 to 3/1/2021	4/1/2021 to 28/3/2021
<20 hours	\$1,500	\$1,200	\$1,000
>20 hours	\$1,500	\$750	\$650

**Cashflow Boost Payments**

If your business received the first cashflow boost tranche, you will receive a further cashflow boost of the same amount for the June to September quarter. If you report quarterly, the cashflow boost will be paid in two equal payments for June and September. If you report monthly, the cashflow boost is provided in four equal payments.

The cashflow boost is applied to reduce any liabilities in the same reporting period with any excess amount being paid as a cash refund from the ATO.

**Support for Businesses Employing Apprentices and Trainees**

JobTrainer provides a 50% reimbursement to eligible employers for the cost of apprentice or trainee wages up to \$7,000 per quarter. Originally only for small businesses employing less than 20 employees, the subsidy recently expanded to include businesses with under 200 employees.

For small businesses (under 20 employees), the apprentice had to be employed on 1 March 2020 or on 1 July 2020 for claims after this date (claims are open now). For medium sized businesses (21-200 employees), the apprentice had to be employed on 1 July 2020 (claims open 1 October 2020). To access the subsidy, you will need to provide evidence of wages paid to the apprentice.

The subsidy is also accessible to larger employers employing apprentices let go by a small/medium business where that apprentice was eligible for the wage subsidy.

The subsidy is scheduled to end on 31 March 2021.

**State and Territory Based Support**

In addition to general waivers, reductions or rebates on some Government licensing and fees, each State and Territory has some form of support accessible to certain businesses impacted by Covid-19.

*Australian Capital Territory*

Support	Description	Closes
<a href="#">Rate deferrals</a>	Rate deferrals for commercial property owners affected by Covid-19	1 April 2021
<a href="#">Payroll tax deferral</a>	All ACT businesses with Australia-wide wages of up to \$10 million can apply to defer their 2020/21 payroll tax, until 1 July 2022	

*New South Wales*

Support	Description	Closes
<a href="#">Payroll tax deferral</a>	Option of deferring 2019/20 payroll tax to October 2020. Instalment plans can be entered into after October 2020. Payroll tax threshold has increased to \$1m for 2020/21	
<a href="#">Small business recovery grant</a>	Grants of between \$500 and \$3,000 to help small business re-open safely	16 August 2020
<a href="#">Export assistance grants</a>	Up to \$10,000 for up to 1,000 eligible small or medium NSW export businesses that have experienced disruptions to freight channels or reductions in orders. Opening soon	

*Northern Territory*

Support	Description	Closes
<a href="#">Business hardship package</a>	A package of concessions, including payroll tax waiver or deferral, council rates, utilities and rate concessions	30 September 2020

**Head Office**

Suite 12 Level 3,  
Gateway Building  
1 Mona Vale Road  
Mona Vale NSW 2103

**Sydney Office**

Suite 802 Level 8  
23 O'Connell Street  
Sydney NSW 2000

T 02 8973 2222

admin@waterhouseca.com.au

www.waterhouseca.com.au

ABN 60 535 258 608

Liability limited by a scheme approved under Professional Standards Legislation



**Chartered Accountants**

## Queensland

Support	Description	Closes
<a href="#">Adaption grant</a>	Funding of up to \$10,000 for regional micro and small businesses to adapt and sustain operations	When allocation exhausted
<a href="#">Payroll tax relief</a>	Payroll tax deferrals for the 2020 calendar year	31 December 2020

## South Australia

Support	Description	Closes
<a href="#">Support when employing apprentices</a>	A range of grants and support when you hire an apprentice – up to \$5,000 for hiring an apprentice, \$1,500 on equipment reimbursement and up to \$5,200 off the Group Training Organisation charge-out rate	Generally 31 August 2020

## Tasmania

Support	Description	Closes
<a href="#">Small business sustainability</a>	Grants of up to \$5,000 for businesses with fewer than 20 employees to re-open and re-build	24 August 2020

## Victoria

Support	Description	Closes
<a href="#">Business support fund</a>	One-off grant of \$10,000 for employers in metropolitan Melbourne and Mitchell Shire and \$5,000 in regional local government areas	14 September 2020
<a href="#">Regional tourism accommodation support</a>	Up to \$225 per night up to a maximum of \$1,125 per bookable accommodation for cancelled bookings during stage three restrictions	19 August 2020

<a href="#">CBD business support fund</a>	\$20m fund for CBD businesses. No details available as yet, but register your interest	
<a href="#">Night-time economy support</a>	\$30m fund for hospitality businesses. No details available as yet, but register your interest	
<a href="#">Payroll tax deferrals</a>	Businesses with payrolls up to \$10m can defer their liabilities for the first half of the 2020/21 financial year	
<a href="#">Payroll tax refunds</a>	Eligible businesses can claim an emergency tax relief fund of payroll tax already paid in the 2019/20 financial year	

## Western Australia

Support	Description	Closes
<a href="#">International competitiveness co-investment</a>	Matched funding of between \$50,000 and \$100,000 for existing exporters (under 200 employees) of food, beverages and services into Asia	12 August 2020
<a href="#">Payroll tax relief</a>	The tax-free threshold increased to \$1m on 1 July 2020. Automatic grants of \$17,500 are being paid to employers with annual Australian taxable wages of more than \$1m and up to \$4m in 2018/19	
<a href="#">Support when employing apprentices</a>	A one-off payment of \$6,000 for an apprentice and \$3,000 for a trainee employed from 1 July 2020	30 June 2021
<a href="#">Incentive to employee apprentices</a>	Incentive of up to \$8,500 for employing an apprentice/trainee from 1 July 2019	

## Head Office

Suite 12 Level 3,  
Gateway Building  
1 Mona Vale Road  
Mona Vale NSW 2103

## Sydney Office

Suite 802 Level 8  
23 O'Connell Street  
Sydney NSW 2000

T 02 8973 2222

admin@waterhouseca.com.au

[www.waterhouseca.com.au](http://www.waterhouseca.com.au)

ABN 60 535 258 608

Liability limited by a scheme  
approved under Professional  
Standards Legislation



Chartered  
Accountants

<a href="#">Local capability fund</a>	Fund to increase capability of SMEs for planning, improvements to internal infrastructure, plant and equipment and training. Current rounds include cost recovery for: <a href="#">PPE manufacturing</a> (up to \$500,000); <a href="#">feasibility</a> (up to \$20,000); and <a href="#">general recovery and growth</a> (up to \$100,000) for supply to certain industries	30 June 2021
---------------------------------------	--	--------------

### Help for Individuals

Services Australia has an online [payment guide](#) that guides you through the payments available if you are impacted by Covid-19 and what you might be able to access.

#### *Pandemic Leave Disaster Payment for Victoria*

If you have to self-isolate or quarantine at home because of Covid-19 or are caring for someone who is and cannot earn an income as a result, you might be eligible for a \$1,500 payment.

#### *Tightening of Access to Income Support*

From 25 September 2020, the assets test and the liquid assets waiting period (which applies to those with assets such as cash savings worth over \$5,500 for singles or \$11,000 for singles with children and partnered people) will be reintroduced for access to income support payments.

In addition, partner income testing will resume from 25 September 2020 albeit with higher thresholds than those pre-Covid-19. That is, you will not be eligible for income support if you are not earning an income, but your partner earns \$3,086.11 per fortnight or \$80,238.89 per annum.

Job seeking requirements that were suspended from 24 March 2020 have been introduced from 9 June 2020. Some leniency has been provided for Victorians if you maintain contact with your employment service provider.

#### *Coronavirus Supplement*

The Coronavirus supplement will continue, albeit on a reduced rate of \$250 per fortnight (from \$550) from 25 September until 31 December 2020 for eligible individuals.

27/4/2020 to 24/9/2020	\$550 per fortnight
25/9/2020 to 31/12/2020	\$250 per fortnight

### *Early Access to Superannuation*

Figures from the Australian Prudential Regulation Authority show that over \$30 billion has been taken from superannuation to date under hardship provisions. If you are an Australian citizen or permanent resident and New Zealand citizen, you can apply to release up to \$10,000 of your superannuation between 1 July 2020 and 31 December 2020 if you were made redundant, your working hours have been reduced by more than 20%, **and you have been adversely financially impacted by Covid-19**. If you are not in financial hardship you should not access your superannuation. The application process through myGov is a self-assessment process that you are responsible for. Penalties of up to \$12,000 may apply for providing false or misleading information.

Some financial institutions are reporting that early access to superannuation will be a factor taken into account for those seeking to apply for loans – lenders may interpret early access as meaning that you are unable to meet your commitments and or are insolvent, and this is likely to impact on your credit worthiness.

## JobKeeper Alert

**With the employee test date for JobKeeper moved to 1 July 2020, some additional employees might have become eligible for JobKeeper. The August JobKeeper monthly business declaration is due by 14 September 2020, and is different to the previous form as it covers three JobKeeper fortnights. Employers need to ensure that they identify all additional employees who could be eligible for JobKeeper to ensure that they comply with the “one in, all in” principle and that they meet the nomination requirements.**

To receive JobKeeper from 28 September 2020, employers need to reassess their eligibility with reference to actual GST turnover for the September 2020 quarter (for JobKeeper payments between 28 September to 3 January 2021), and again for the December 2020 quarter (for payments between 4 January 2021 to 28 March 2021). However, we are still waiting on the rules relating to these periods to be released.

#### Head Office

Suite 12 Level 3,  
Gateway Building  
1 Mona Vale Road  
Mona Vale NSW 2103

#### Sydney Office

Suite 802 Level 8  
23 O'Connell Street  
Sydney NSW 2000

T 02 8973 2222

admin@waterhouseca.com.au

www.waterhouseca.com.au

ABN 60 535 258 608

Liability limited by a scheme approved under Professional Standards Legislation



Chartered Accountants

# JobKeeper and Termination Payments

**An employment termination payment (ETP) is a lump sum payment made to an employee when their job is terminated. ETPs are generally made up of unused personal/carer's leave or unused rostered days off, payment in lieu of leave, genuine redundancy payments, etc.**

For some employers, JobKeeper will not be enough to keep the employee employed. If you do need to let staff go, the ATO has stated that from JobKeeper fortnights from 8 June until the end of the scheme, ETPs cannot be included as part of the \$1,500 an employer needs to pay to eligible employees to access JobKeeper payments.

If any JobKeeper payments include an ETP to a terminated employee between 30 March 2020 and 7 June 2020, the ATO has stated that it will not recover an overpayment.

## Tax on Covid-19 Grants

**Question: my business received a grant from the State Government. Do I pay tax on it?**

**The short answer: probably.**

**Income tax** - grants are likely to be taxable unless they are specifically excluded from tax.

If the grant relates to your continuing business activities, then it is likely to be included in assessable income for income tax purposes. The position can be different in cases where the payment is made so that the entity can commence a new business or cease carrying on a business.

**GST** - Government grants are not generally subject to GST unless the grant is for a supply of something. The ATO has indicated that the Cashflow Boost and JobKeeper payments are not subject to GST; this seems to be on the basis that they are not consideration for a supply.

Normally, we look at whether the entity has to do something to obtain the payment/grant. This could include entering into an agreement to do something or refrain from doing something. If

not, there will not generally be any GST because no supply is or has been made.

**JobKeeper turnover calculations** - if GST does not apply to the grant, then it should not be included in the decline in turnover test for the initial phase of JobKeeper or the GST turnover figures that are reported to the ATO on a monthly basis by entities that are participating in JobKeeper.

The exception is the university sector where core Commonwealth Government financial assistance provided is included in the JobKeeper turnover tests.

## The ATO on Covid-19 Fraud Warpath

**We always knew that a Government scheme swiftly distributing cash during a crisis was going to come with equally swift compliance and review measures, particularly when eligibility was self-assessed. Two major ATO initiatives are searching out fraud and schemes designed to take advantage of the Government's Coronavirus Economic Response Package.**

### Tip Lines, Tax Returns and STP

The tip line, tax returns and single touch payroll (STP) are just a few of the data sources the ATO is using to identify "inappropriate behaviour."

The tip line has already delivered its first target with the very public outing in the *Australian Financial Review* of The Australian Comfort Group, which owns SleepMaker and Dunlop Foams, for an alleged scheme to deliberately depress monthly revenue to qualify for up to \$11 million in wage subsidies. Internal emails allegedly from an employee who has also lodged a claim under the Fair Work Act against the manufacturer appear to demonstrate an internal effort to push invoicing to other periods. The Australian Comfort Group have vehemently denied any wrongdoing.

Tips from employees about their employer's efforts to manipulate revenue to meet the JobKeeper eligibility criteria is not hard to find. The ATO's community forum notes one respondent who states:

*"My employer is defrauding the ATO and is set to receive close to \$1 million in JobKeeper payments which the company is certainly not eligible for as the company has not had a 30% decline in sales. The company has already received the first payment relating to the month of April in JobKeeper from the ATO.*

#### Head Office

Suite 12 Level 3,  
Gateway Building  
1 Mona Vale Road  
Mona Vale NSW 2103

#### Sydney Office

Suite 802 Level 8  
23 O'Connell Street  
Sydney NSW 2000

T 02 8973 2222

admin@waterhouseca.com.au

www.waterhouseca.com.au

ABN 60 535 258 608

Liability limited by a scheme  
approved under Professional  
Standards Legislation



Chartered  
Accountants

*The director of the company is emailing employees constantly to stop invoicing, change invoice dates, make sure the company shows a 30% fall in sales compared to the same period in 2019, to keep him updated each week on sales to not exceed the 30% fall, how much will the company receive, when the funds are received to shift them into offset accounts immediately. It just goes on and on. I have copies of the emails from the company director giving instructions on how to create this fraud so the company meets the eligibility criteria.”*

The ATO has noted that it has received intelligence on a number of schemes circulating, one of which is the withdrawal of money from superannuation and re-contributing it to get a tax deduction.

ATO Deputy Commissioner Will Day said that “Not only is this not in the spirit of the measure (which is designed to assist those experiencing hardship), severe penalties can be applied to tax avoidance schemes or those found to be breaking the law. If someone recommends something like this that seems too good to be true, well, it probably is.”

The ATO has made its targets clear. For JobKeeper, these include ensuring that:

- Entities meet the eligibility requirements in relation to business income.
- Entities are claiming for eligible employees.
- Eligible business participants are correctly making claims.
- Entities are not manipulating their turnover in order to satisfy the decline in turnover test.

For the early release of superannuation measure, behaviours attracting ATO attention include:

- Applying when there is no change to your regular salary, wage or employment information.
- Artificially arranging your affairs to meet the eligibility criteria.
- Making false statements or fraudulent attempts to meet the eligibility criteria.
- Withdrawing and re-contributing superannuation for a tax advantage – this could not only trigger anti-avoidance rules, but also result in additional taxes and impact your eligibility for a superannuation co-contribution.

Where individuals have not met the early access measures hardship eligibility criteria, the ATO has stated that fines of up to \$12,000 will apply for each false and misleading statement made. In addition, where a scheme has been entered into to obtain a tax benefit, such as claiming a tax deduction for re-contributing superannuation withdrawn under the early release measures, Part IVA may apply. That is, the ATO is actively looking for individuals who have utilised the early release measures when they did not need it, then re-contributing all or

part of the superannuation for the purpose of claiming a tax deduction.

For the cashflow boost, the ATO is looking for schemes designed to:

- Artificially restructure businesses to gain access to the cashflow boost.
- Artificially changing the character of payments to salary or wages to maximise the cashflow boost.
- Inflating reported withholding amounts to maximise the cashflow boost.
- Resurrecting dormant entities or phoenixing.
- Making false statements or fraudulent attempts to create an entitlement.

Have you genuinely made a mistake? The ATO has stated that if you work with them, and the mistake is genuine, they will give you the support you need, without the worry of accruing a debt, repaying money or getting penalised.

### Three Million Individuals in Data Matching Program

In a massive data matching program, the ATO and Services Australia will share the records of approximately three million individuals to ensure that those accessing benefits are eligible to receive them.

For those who access their superannuation early under the Covid-19 measures, Services Australia will verify their eligibility where they have indicated that they are eligible for the JobSeeker payment, parenting payment, special benefit, youth allowance or the farm household allowance.

The program will review the records of those applying for early access between 19 April 2020 and 24 September 2020.

The records of 45,000 prisoners in State and Territory correctional facilities are also being compared against applications for JobKeeper, temporary early access to superannuation and the eligibility criteria for cashflow boost to confirm appropriate access. The records gathered will cover the period from 1 March 2020 to 27 September 2020.

## Working from Home

**“During lockdown, I’ve had to work from home. I’ve set up a full home office with paintings, plants, a desk, computer equipment, a water tower and a sculpture. I presume I can claim everything I’ve purchased for this office and claim part of my mortgage and running costs?”**

In general, home office expenses are designed for those who run their business out of home. If you are merely working from

#### Head Office

Suite 12 Level 3,  
Gateway Building  
1 Mona Vale Road  
Mona Vale NSW 2103

#### Sydney Office

Suite 802 Level 8  
23 O’Connell Street  
Sydney NSW 2000

T 02 8973 2222

admin@waterhouseca.com.au

www.waterhouseca.com.au

ABN 60 535 258 608

Liability limited by a scheme  
approved under Professional  
Standards Legislation



Chartered  
Accountants

home and not running a business at home, then it is unlikely you will be able to claim occupancy expenses such as mortgage interest or rent. Keep in mind that if you claim occupancy costs, this will impact on your access to the CGT main residence exemption.

The water cooler is unlikely to be deductible as food and drink is considered to be private in nature. The items that beautify your office will generally only be deductible if they are displayed in open viewing areas in premises used for income producing purposes, including reception areas, waiting rooms and foyers.

If you are working from home and have set up a home office for this purpose, you can claim a deduction for your expenses based on the 80 cents per hour short cut method, the 52 cents per hour method (which excludes phone, internet or the decline in value of equipment which are all claimed separately) or the actual method.

## Covid-19 and Your SMSF

**Covid-19 has had an impact on many self-managed superannuation funds (SMSFs). We look at the key issues.**

### Early Release of Superannuation

When a member of your fund wants to access up to \$10,000 of their superannuation early under the Covid-19 measures, there are some additional steps that trustees need to take. Trustees will need to ensure their deed allows for early release, the member has met the eligibility criteria for release and ensure that no funds have been released until the release authority from the ATO has been received. This will be a 2019/20 audit area of focus.

### Tenant Rent Relief

Setting rent for a tenant that is less than market value in an SMSF is usually a breach of superannuation laws. If the rental relief is provided to a related party, then the situation can become trickier as the difference between the rent charged and the market value can amount to a loan and potentially put the fund in breach of the in-house asset rules.

However, to manage Covid-19 rent reductions for SMSF landlords, the ATO has stated that for the 2019/20 and 2020/21 financial years it will not take action where the rental relief is provided on arms-length terms. That is, if the relief is in line with the National Cabinet Mandatory Code of Conduct for commercial leasing principles, has a set timeframe to it and the reason for the relief and the relief provided is documented.

### Relief for Related Party Loans

If your SMSF has a limited recourse borrowing arrangement in place with a related party, and that related party provides repayment relief, this would ordinarily be a breach of the superannuation rules. The ATO, however, will accept the relief if it is provided on reasonable terms similar to commercial banks (see the [Australian Banking Association's website](#) for comparison), the relief and the reasons for it is documented and is for a set period of time.

### A Fall in Asset Values

If the assets of your SMSF have fallen in value, you should consider whether the current asset allocation is consistent with the fund's investment strategy, and if the long-term goals of the fund continue to be met.

If you need to sell assets and make a capital loss, such as a loss on residential real estate, this loss can be offset against any capital gains. If the capital loss exceeds any gains, this loss can be carried forward and applied against future capital gains.

No deductions are available for unrealised gains (a fall in value for assets the fund continues to own).

### Minimum Pension Payments

For funds drawing a pension, minimum drawdown rates for the 2019/20 and 2020/21 years have been halved.

Age	Default Minimum Drawdown Rates	2019/20 and 2020/21 Reduced Rates
Under 65	4%	2%
65-74	5%	2.5%
75-79	6%	3%
80-84	7%	3.5%
85-89	9%	4.5%
90-94	11%	5.5%
95 or more	14%	7%

#### Head Office

Suite 12 Level 3,  
Gateway Building  
1 Mona Vale Road  
Mona Vale NSW 2103

#### Sydney Office

Suite 802 Level 8  
23 O'Connell Street  
Sydney NSW 2000

T 02 8973 2222

admin@waterhouseca.com.au

[www.waterhouseca.com.au](http://www.waterhouseca.com.au)

ABN 60 535 258 608

Liability limited by a scheme approved under Professional Standards Legislation



**Chartered Accountants**

# Has Covid-19 Devalued Your Business?

**If you are selling your business, merging, acquiring or inviting in new investors, you need to understand the value of your business. But to what degree does the pandemic impact on value? Should you discount or hold firm to pre-Covid-19 performance on the basis that “we’re going to come out of it eventually”?**

Fair market value is the price that would be negotiated in an open market between a knowledgeable, willing, but not too anxious buyer and a knowledgeable, willing, but not too anxious seller dealing at arm’s length within a reasonable timeframe. Value and price may not be the same thing. The price you are offered (or offer) will often depend on the anxiousness of the parties. For example, a seller that does not need to sell where the business being sold adds synergy value to the purchaser may look to obtain a premium on value. And even where a quick sale is required it may not be discounted if the liquidated asset value of the business remains high (i.e. the assets of the business are worth more broken up and sold off than as a whole).

However, to understand the value of a business, the pandemic necessitates a depth of investigation beyond the norm. You cannot simply ignore the pandemic and rely on pre-pandemic performance and financials, even if you are enthusiastic about the future. Previously, anyone looking to buy or sell a business would likely analyse the past three years’ trading figures to help determine a value, but this historical analysis may no longer present an accurate picture. For some businesses, history is no longer a reliable predictor of fair value.

The Government controls put in place to contain Covid-19 transmission - closures, social distancing, border and travel restrictions - have a material economic impact. Closures and distancing impact in different ways and need to be considered at both an industry sector and individual business level. Government stimulus packages may also be providing abnormal short-term outcomes.

For some businesses, the operating and financial impact is material, and this may flow into the underlying value of the business.

All valuations consider present and emerging risks and the current and anticipated business environment. This analysis is then brought into the modelling and valuation conclusion. Covid-19 creates its own set of considerations for analysis including:

- Covid-19 impact at an economic, industry sector and business level.
- The supply chain across the customer and supplier base with a view to identifying possible Covid-19 impacts in the supply chain.
- Earnings normalisation, including the removal of stimulus support measures. For the 2020 year, a deeper analysis is likely to be required with possible segmentation by quarter.
- Current and forward year position (see Forecasting During a Pandemic in this newsletter).
- Covid-19 risk in applying earnings multiples.
- Covid-19 related assumptions.

A hypothetical investor might have been prepared to pay \$1 million for a business. That business might be on offer for \$800,000 and appear as if the investor has struck a bargain. But the business might actually only be worth \$600,000, and not such a good deal after all.

Take the hypothetical example of a printing business. The business has been established for more than 10 years and has a history of profitable operation, with revenues of \$5-6 million and EBIT of \$800-900,000 per annum for each of the past three years. The business has a large client base of just over 400 active accounts. Trading patterns seem consistent to prior years up to March 2020. Between March and June 2020 there was a 40% downturn with the business closed or working on a limited roster for an eight week period during the initial Covid-19 lockdowns. The business is currently moving back to normal operations, but this is not yet reflected in revenues. The impact of Covid-19 in this scenario might be discounted as the business appears to be returning to normal conditions and it has a solid history of trading and profitability.

The largest customer of the business represents less than 2% of total revenue and the next two largest customers represent just over 1% of revenue. Two of the three customers have resumed their pre-Covid-19 printing order levels. A large number of customers seem to spend between \$5-20,000 per annum with the business.

However, during a customer sensitivity analysis, it is found that 70% of customers are from the live entertainment sector (although their two largest clients are not in this sector). As a result, the business is likely to have a material downturn until the entertainment industry resumes or the business is able to replace the business it has lost. A consequence of this is that value may be impacted.

Almost all businesses are valued by one of two methods. The first is the industry approach, where sales of similar businesses are used for comparison. The basis of this method is that the market provides a reliable indicator of value. This method works best in a stable and active market and where recent history is a reliable indicator of the present. But Covid-19 casts doubt on the reliability of past sales that occurred outside of pandemic conditions.

## Head Office

Suite 12 Level 3,  
Gateway Building  
1 Mona Vale Road  
Mona Vale NSW 2103

## Sydney Office

Suite 802 Level 8  
23 O’Connell Street  
Sydney NSW 2000

T 02 8973 2222

admin@waterhouseca.com.au

[www.waterhouseca.com.au](http://www.waterhouseca.com.au)

ABN 60 535 258 608

Liability limited by a scheme  
approved under Professional  
Standards Legislation



Chartered  
Accountants

The other typical method of valuing a business is based on its maintainable earnings. This method is used for businesses with a trading history where it is likely that the value of the business will exceed the underlying value of its assets. This method determines the future maintainable earnings of the business, an appropriate earnings multiple, and the value of any assets surplus to the core business. The multiple applied to the business may be impacted by Covid-19 as the multiple falls as risk increases. For example, a business that was valued at four times earnings pre-pandemic might achieve a lower multiple as the pandemic presents a risk to the likelihood of the business achieving earnings consistent with pre-pandemic conditions.

The pandemic has added significantly greater complexity to the valuation process, meaning buyers and sellers should work even more closely with their advisers before making a decision.

**If you are purchasing a business and would like due diligence completed, or are looking to sell, merge or engage with investors, contact us for more details on the steps to take.**

## Funding for the Arts: What's Available and how You can get it

### Will the Prime Minister's targeted \$250 million package of funding to support cultural and creative projects and initiatives save the industry?

The arts funding is aimed at kick starting the sector with funding preferencing commercial initiatives that generate jobs and are expected to have a positive economic impact. That is, this is an economic package as opposed to creative or cultural funding.

Area	Total Funding	
<b>Seed Investment to Reactivate Productions and Tours</b>  Productions, festivals and events - including theatre, dance, community and arts and culture gatherings.  Individuals are able to apply for funding	\$75m	The competitive grant is administered through the Restart Investment to Sustain and Expand (RISE) Fund and provides seed funding to substitute for the capital lost as a result of cancellations and rescheduling of events.  Grants range from \$75,000 to \$2m.

		Part of the funding has been earmarked for music recovery - recording and distribution, contemporary music touring, the development of safe venue infrastructure and protocols
<b>Show Starter Loans</b>  Businesses able to generate jobs - including through the synergy between arts and entertainment and travel, tourism and hospitality	\$90m	In a move to free up capital, the Government is providing a 100% guarantee for loans through financial institutions to assist arts and entertainment businesses to fund new productions and events.  Lenders will provide facilities that only have to be drawn down if needed. Loan terms will be up to five years, with an initial 12 month repayment deferral. That is, the amount drawn down will need to be paid back, but in the event the loan cannot be repaid, the bank is protected.  The loans are part of the Government's existing Coronavirus Small and Medium Enterprises (SME) Guarantee Scheme

**Head Office**

Suite 12 Level 3,  
Gateway Building  
1 Mona Vale Road  
Mona Vale NSW 2103

**Sydney Office**

Suite 802 Level 8  
23 O'Connell Street  
Sydney NSW 2000

T 02 8973 2222

admin@waterhouseca.com.au

www.waterhouseca.com.au

ABN 60 535 258 608

Liability limited by a scheme approved under Professional Standards Legislation



**Chartered Accountants**

<p><b>Local Screen Production</b></p> <p>Local film and television productions</p>	<p>\$50m</p>	<p>A Temporary Interruption Fund (TIF) for Screen Australia for local film and television producers to restart filming - see Screen Australia's <a href="#">Funding and Support initiatives</a> page.</p> <p>The fund commences from 1 July 2020 for 12 months</p>
<p><b>Sector-Significant Organisations</b></p> <p>Support significant Commonwealth-funded arts and culture organisations</p>	<p>\$35m</p>	<p>Funding to support significant Commonwealth-funded arts and culture organisations facing threats to their viability due to Covid-19</p>

Outside of the funding package, [SupportAct](#) received \$10m in funding for Covid-19 crisis relief grants. Crisis funding is accessible to:

- Musicians, crew and music workers who are unable to access Government benefits due to eligibility or other issues
- Music workers who have been able to access Government benefits, but are still facing financial hardship; and
- Those who are suffering financial hardship as a result of injury, ill-health or a mental health issue that is managed through a current mental health plan.

To be eligible, you will need to be a musician, crew or music worker who:

- Is an Australian citizen, permanent resident or has a valid working visa.
- Can prove you have been working in the music industry for three years.
- Can provide names and details of two professional referees.
- Have household expenses greater than household income.

Other financial support is available through JobKeeper (including the self-employed) or JobSeeker.

For more details see [The Office for the Arts Covid-19](#) update.

For many in this sector, the funding is helpful, but the future will be determined by how quickly or otherwise the distancing measures are retracted. After all, most entertainment relies on a crowd.

# Forecasting During a Pandemic

## How do you plan for uncertainty when every assumption is subject to change?

Now more than ever business operators should have a plan in place to manage during uncertain times. Even if your business is not directly impacted, it is likely your customers, your supply chain and your workforce will be to some extent.

### Understand Where You Stand Now

Businesses fail (or fail to thrive) for a myriad of reasons, but the precursor is often a failure to understand what is occurring and what to monitor. Strategically, managers need to be on top of their numbers to identify and manage problems before they get out of hand. If you do not know what the key drivers of your business are - the things that make the difference between doing well and going under - then it is time to find out.

### Understanding Your Cost Structure

Do you know what your real cost of doing business is? Your break even point is the level of sales activity where your business is neither making a profit or a loss. Calculate your break even point by dividing your fixed expenses by your gross profit margin. This figure represents the level of sales income you need to break even.

Understanding your break even point is crucial particularly when supply chains are impacted.

Not only will your break even point assist you to monitor business performance, it is critical when deciding whether or not to offer a discount. If your break even point is well below your current operating level then you have a good buffer in your profits to manage growth, invest in further capital opportunities, and to protect yourself against further downturns in operating performance. And before you say "I know that" ask yourself how many people actually put this theory into practice. Even some of the largest businesses have been caught out on this one and tie up valuable resources in unprofitable projects and products.

Putting up your prices during down times is not an act of social betrayal. If your prices have increased you should flow these through unless you are comfortable making less for the same amount of effort, or you are in an industry that is so price sensitive you have no choice but to follow the lead of larger businesses.

Discounting creates a leverage impact on profits. By discounting you are giving away some or all of your profits. The key is to

**Head Office**

Suite 12 Level 3,  
Gateway Building  
1 Mona Vale Road  
Mona Vale NSW 2103

**Sydney Office**

Suite 802 Level 8  
23 O'Connell Street  
Sydney NSW 2000

T 02 8973 2222

admin@waterhouseca.com.au

[www.waterhouseca.com.au](http://www.waterhouseca.com.au)

ABN 60 535 258 608

Liability limited by a scheme approved under Professional Standards Legislation



**Chartered Accountants**

understand the impact and just how far you can go. For example, a business with a 30% gross profit margin that offers a 25% discount (certainly nothing unusual about that in today's market) needs a 500% increase in sales volume just to maintain the same position – and, in almost all cases, that is just not going to happen. The result generally is that the business trades below its break even point and generates a loss. You can only do that for a limited amount of time (and some of your larger competitors might be engaging in a discounting war with you in an attempt to bury you once and for all).

If your business needs cash and needs it quickly, discounting might be the only way to shift stock but understand the implications.

### Plan, Review and Adjust

Your budget should be your best estimate of what is likely to occur based on current knowledge. To manage change, you can scenario plan where your budget forms the baseline, but you also forecast best and worst case scenarios based on potential risks and their likelihood (e.g. the impact of another lockdown). Or, the simplest method is to use your budget as a baseline and regularly review and adjust depending on current conditions.

The greatest risk to your profit is unlikely to come from your cost structure. It is more likely to be revenue volatility. Keep your eye on your cost structure and make sensible cuts where appropriate. But in your search for savings do not remove your essential revenue generating capacity that you need.

A lack of profit will eventually erode your business, but not enough cash will kill it stone dead. Businesses will fail because they do not manage their cash position. Plan, track and measure your cashflow. This not only means closely monitoring your debtor collections and inventory, but also running a rolling three month cashflow position. This should provide an early warning of brewing problems.

Manage your debt levels carefully (your bank is likely to). While there is nothing wrong with debt, it is likely that the banks will be closely watching customer accounts. Where you have loan facilities in place make sure that you understand the loan terms and any debt covenants that you have entered into. These covenants could include regular reporting to the bank, debtor and working capital ratios, or debt to equity ratios. Where the banks may have been more relaxed about these in the past, this year will be different. If you believe that you need additional funding, talk to your bank early and do not wait until the last minute. You will need to present your case on why you need it, how much, for how long and when it will be repaid.

Cashflows, operating budgets, cost control and debt management all need to be part of your business management. The more in control you are the lower your risk position.

### Understand the External Environment

The Covid-19 pandemic has implications well beyond the economy; it has changed how business operates and how consumers act. While comparisons are made to the 2008 Global Financial Crisis and the recessions of the 1980s and 1990s, the reality is we have no case study. There is no rule book for the post-pandemic road to recovery as this is not an economic event. The pandemic pulls the economy up short curtailing both supply and demand; businesses are not operating at capacity and fewer people are working.

The Federal Budget will be released on 6 October 2020 and we are expecting to see the Government invest heavily in job creating projects. Many of these will be focussed on infrastructure. Each of these projects will have a flow-through effect to the broader economy. We will bring you our insights soon after the budget and you should look to see if there are opportunities your business can capture.

Understanding your supply chain is important. Risk manage and plan for changing conditions. For example, what is your business's ability to manage a surge in demand? Do you have a small supply base, and what would happen if your primary supplier went into bankruptcy? Do you have a good flow of information across your supply chain or is there a lack of transparency and knowledge? Do transport problems risk your ability to supply? Assess it, understand it, and manage the risks.

When it comes to demand, there is no instant fix. The Reserve Bank of Australia (RBA) suggests the decline in GDP in the first half of 2020 is around 7% and the contraction in hours worked around 10%. The economic impact of the restrictions in Melbourne extend well beyond Victoria and are impacting more generally on consumer sentiment. This week we expect Australia to have a formal "recession" label added to our economy, formalising what most business operators already know.

But it is not all bad news, with confidence lifting on early signs that revenue is no longer declining for the majority of Australian businesses. The latest [ABS data](#) on the impact of Covid-19 shows fewer businesses reported a decline in revenue in August (41%) compared to July (46%), and fewer still expect a decline in September (28%).

However, 35% of businesses expect it to be "difficult or very difficult" to meet financial commitments over the next three months, with small and medium businesses almost twice as likely as large businesses to fall into this category. Understandably, the response to this question is heavily weighted towards those operating under Government required restrictions and lockdowns.

The RBA is working with three scenarios for Australia's economic outlook: a baseline, upside and downside scenario. In the baseline scenario, conditions improve in the second half of

#### Head Office

Suite 12 Level 3,  
Gateway Building  
1 Mona Vale Road  
Mona Vale NSW 2103

#### Sydney Office

Suite 802 Level 8  
23 O'Connell Street  
Sydney NSW 2000

T 02 8973 2222

admin@waterhouseca.com.au

[www.waterhouseca.com.au](http://www.waterhouseca.com.au)

ABN 60 535 258 608

Liability limited by a scheme  
approved under Professional  
Standards Legislation



Chartered  
Accountants

2020 and slowly improve over 2021 and 2022, but fall short of returning to pre-Covid-19 forecasts with Victoria’s lockdown not materially extended and Australia’s international borders remaining closed until mid-2021. The upside scenario saw no extension of the Melbourne lockdown, and further easing of Government restrictions nationally, which in turn bolster consumer confidence, encouraging spending and the reversal of GDP decline over 2020/21. The downside scenario envisages a global resurgence in infections with Australia facing periodic outbreaks and rolling lockdowns. The RBA notes that the downside scenario has a sharper fall than the increase of the upside scenario because of the damage to consumer confidence of further lockdowns.

Business investment is also expected to be relatively flat with the ABS survey showing that 37% of those surveyed had no actual or planned expenditure. Of those that are spending, IT hardware and software and equipment and machinery topped the list. The instant asset write-off is helping to stimulate business investment in the small and medium business sector. In general, large businesses are paying down debt rather than spending and small and medium businesses have not sought to extend debt to fund investment.

**We can help give you insight into the performance of your business. Contact us to find out how we can give you the information you need.**

# Office Update

## Waterhouse Wealth Management

We are pleased to announce that Waterhouse Wealth Management has acquired Price Financial Services, and we welcome Vaughan Price to the team.

## Working Arrangements

Our team’s working arrangements continue to be a mix of working from home and working in the office.

Our main line is 8973-2222 (option 1 for Waterhouse Chartered Accountants and option 2 for Waterhouse Wealth Management), and below is a list of direct lines for team members:

## Waterhouse Chartered Accountants

Alex Lai	8973-2277
Ann Lai	8973-2266
Ana-Bel Mor	8973-2244
Belinda Adams	8973-2255
Ivan Calvin	8973-2220
Kylie Symonds	8973-2233
Mark Waterhouse	8973-2200
Nicholas Wilson	8973-2292
Paul Connolly	8973-2290
Peter Muscolino	8973-2211
Su Ann Lim	8973-2288
Tango Wu	8973-2234

## Waterhouse Wealth Management

Andy Harris	8973-2291
Vaughan Price	8973-2232
Yuliya Ryan	8973-2225

### Head Office

Suite 12 Level 3,  
Gateway Building  
1 Mona Vale Road  
Mona Vale NSW 2103

### Sydney Office

Suite 802 Level 8  
23 O’Connell Street  
Sydney NSW 2000

T 02 8973 2222

admin@waterhouseca.com.au

www.waterhouseca.com.au

ABN 60 535 258 608

Liability limited by a scheme approved under Professional Standards Legislation



**Chartered Accountants**