

Federal Government Stimulus Measures

Guide for Strata Managers prepared in conjunction with the
Strata Community Association

Dear SCA Members,

Kelly+Partners are proud to partner with SCA to provide this guide on the Federal Government's stimulus measures in response to the economic impact from coronavirus and its application to bodies corporate and owners corporations ('strata corporations'). The purpose of this guide is to assist strata managers to understand the stimulus measures that may be available to strata corporation clients.

Strata Community Association (SCA) being the peak industry group for Body Corporate and Community Title Management (also referred to as Strata Management, Strata Title or Owners Corporation Management) in Australia and New Zealand has over 5,000 individual and corporate members including strata managers, owners corporation managers and, body corporate managers ('managers'), support staff, owners' representatives and suppliers of products and services to the industry. SCA proudly fulfils the dual roles of a professional institute and consumer advocate.

In light of the unfolding economic fallout caused by COVID-19, our members are concerned about the likelihood of a solvency crisis emerging among significant numbers of Strata Corporations. The strata community sector seeks to bring all stakeholders to the table in a proactive way in order to get ahead of this issue, in advance of a potential market failure among Strata Corporations.

Whilst most of the Federal Government's stimulus measures are not targeted to assist Strata Corporations, there are some measures that Strata Corporations can utilise. In preparing this guide, we have assumed that the Strata Corporations are non-profit bodies that have not made distributions of income to its lot owners. We have also assumed that the Strata Corporations are not carrying on a business. This document is intended to cover all states and territories of Australia.

The comments provided in this guide are general in nature and are not intended as income tax advice. Strata managers and Strata Corporations should obtain tax advice that considers their individual factual circumstances before proceeding. We encourage strata managers to receive professional advice to discuss any questions that they may have.

Stimulus measures available to Strata Corporations

The following measures should be available to Strata Corporations, though actual eligibility is dependent on the circumstances of each Strata Corporation.

Government backed loans up to \$250,000

Under this measure, the Federal Government will offer a 50% guarantee to a financial institution for unsecured loans made to small and medium enterprise (including non-profit bodies such as Strata Corporations) to assist with dealing with the economic impact of the coronavirus. Under these measures, SME's with a turnover of up to \$50 million will be eligible to receive these loans.

The Federal Government will provide lenders with a guarantee for loans with the following terms:

- + maximum size of the loan of \$250,000 per borrower;
- + the loans will be up to 3 years, with an initial 6-month repayment freeze;
- + the loans will be in the form of unsecured finance, meaning that borrowers will not have to provide an asset as security for the loan;
- + the loan is to assist in dealing with the impact of coronavirus; and
- + 100% of lot owners agree to the loan.

Are Strata Corporations eligible?

Strata Corporations may be eligible and should contact their lender. Loans will be subject to the lenders' credit assessment process, though the responsible lending obligations have been relaxed so that loans are available to more businesses.

What is the benefit to Strata Corporations?

Government backed loans are likely to be beneficial for unexpected shortfalls for development projects or for funding urgent repairs that would normally be funded by levies, such as urgent replacements of flammable cladding.

How does a Strata Corporation access these loans?

The scheme will commence by early April 2020 and will be available for new loans made by participating lenders until 30 September 2020. Many financial institutions are offering these loans, Strata Corporations should contact their preferred lender.

Cashflow Boosts for PAYG Withholding (PAYGW)

Under this measure, eligible entities (including non-profit bodies such as Strata Corporations) should receive tax-free cash flow boosts of up to \$100,000 if they have employees and withhold PAYG from salary and wages. The boost will be provided by the ATO through credits in the activity statement system when the activity statements are lodged.

The credit is calculated as 2 minimum payments of \$10,000, though this can be higher if more than \$10,000 is withheld from salary and wages in a period. On the assumption that most Strata Corporations are quarterly reporters, the payments will be paid in respect of the following periods:

- + for the quarters ending 31 March 2020 and 30 June 2020 → A minimum of \$10,000 and a maximum of \$50,000 of PAYGW; and
- + for the quarter ending 30 September 2020 → A minimum of \$10,000 and a maximum of \$50,000 of PAYGW.

Are Strata Corporations eligible?

Provided that a Strata Corporation has not made distributions to its members, a Strata Corporation should be a 'non-profit body', as defined in the Act. On this basis, subject to the other conditions being satisfied, a Strata Corporation should be eligible to claim the cashflow boost.

The other eligibility requirements include:

- + the Strata Corporation held an ABN on 12 March 2020 and continues to be active;
- + the Strata Corporation employs one or more individuals, such as a caretaker or a grounds-person;
- + the Strata Corporation pays salary and wages that are subject to the PAYG Withholding rules between 1 March 2020 to 30 June 2020 (even if the withheld amount is nil); and
- + the Strata Corporation has raised levies since at least 1 July 2018 and lodged income tax returns activity statements as required.

What is the benefit to Strata Corporations?

The Strata Corporation will receive a credit for the PAYGW that it would ordinarily have to pay up to a maximum of \$100,000. The Strata Corporation should receive as a minimum \$10,000 for the quarter ended 30 June 2020 and a further \$10,000 for the quarter ended 30 September 2020. If the credit exceeds any liability in the integrated client account from the relevant BAS, a cash refund will be paid from the ATO.

How does a Strata Corporation access the cashflow boosts?

The PAYGW credit should be calculated automatically by the ATO and applied against any tax liabilities from the activity statement. Any excess should be refunded by automatic bank transfer to the Strata Corporations nominated bank account.

JobKeeper Payments – Payments up to \$1,500 per employee per fortnight

A Strata Corporation may have a caretaker, groundskeeper or other person that is paid salary and wages. If eligible, this stimulus measure could be used to subsidise the Strata Corporations' salary costs by providing a salary subsidy of \$1,500 per fortnight (before tax) per employee for the 6-month period spanning April 2020 to September 2020.

Are Strata Corporations eligible?

To be eligible, the Strata Corporation will need to show that its turnover has reduced by at least 30% in each of the six months. This is done by comparing the Strata Corporations turnover to a corresponding period in 2019.

It is expected that it may be difficult for a Strata Corporation to show that its turnover has reduced by 30%, as this would generally require a significant reduction in its strata levies.

Other eligibility requirements include:

- + the person must have been an employee of the Strata Corporation as at 1 March 2020 and must continue to be employed whilst the JobKeeper Payment is received;
- + an amount equal to at least \$1,500 per fortnight (before tax) must be paid to the employee. In some instances, this could be more than what the employee is currently earning. Where this occurs, the Strata Corporation is not permitted to retain the excess; and

- + no superannuation guarantee payments are required to be paid on any additional payment made because of the JobKeeper Payment.

Timing

It is anticipated that the JobKeeper payments will start on 30 March 2020, with the first payments to be received by employers in the first week of May. Strata Corporations will be able to register their interest in participating in the scheme from 30 March 2020 at ato.gov.au.

ATO Concessions

The ATO has advised that the following measures may be available on a case-by-case basis:

- + deferral of payment of income tax and FBT to 12 September 2020 with no ATO interest accruing;
- + Strata Corporations can request their GST reporting cycle be changed from quarterly to monthly. This may allow a Strata Corporation to more quickly obtain a GST refund if they are in a refund position; and
- + If a Strata Corporation has PAYG instalments, the instalment rate can be varied to zero. Further, PAYG instalments already paid for the 2020 financial year to date, can be refunded.

These measures are not automatically applied, strata managers should discuss these with Strata Corporations and contact the ATO if required.

Whilst most of the Federal Government's stimulus measures are not targeted to assist Strata Corporations, there are some measures that Strata Corporations can utilise.



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