



# The Federal Government's wage subsidy

A review of measures announced as of 30 March 2020

March 2020

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# Introduction

The Federal Government has announced a JobKeeper Payment for around six million Australian workers. Costing \$130 billion over six months, the JobKeeper Payment is a wage subsidy for businesses and not-for-profit organisations whose turnover has fallen by at least 30 per cent. Businesses with a turnover greater than \$1 billion would need to have experienced a reduction in turnover of more than 50 per cent.

The JobKeeper Payment is set at a flat rate of \$1500 per fortnight for full-time, part-time and casual workers, which is around 70 per cent of the median wage.

Employers, of course, will be obliged to pass on the full JobKeeper Payment to employees. It will be up to employers if they want to pay any additional wage over and above the JobKeeper Payment.

The JobKeeper Payment will be payable to existing employees who are still working actively, as well as to employees who have been stood down and



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employees who have recently been dismissed but are rehired. The JobKeeper Payment will be provided through the tax system, administered by the Australian Taxation Office.

The Government's wage subsidy scheme is a big step forward in furthering its objective of keeping businesses connected to the economy and workers connected to their employing businesses. It will enable more businesses to hibernate through the crisis and come out intact at the end of the crisis.

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# Economic Analysis



Dr Brendan Rynne

Chief Economist

The Federal Government's \$130 billion JobKeeper Payment for Employees represents a strong response to the prospect of our economy going into hibernation to deal with the COVID-19 health crisis.

KPMG Australia has estimated the salaries and wages for employees in those industries most at risk from the changing trading conditions to be around \$20 billion per month. This suggests the size of the JobKeeper Payment package, while extraordinarily large in the history of government subsidies and support programs, is commensurate with the extraordinary risks to the economy we are currently facing.

Key elements of the package include flexibility, mutual obligations and fairness in eligibility, which have also been key features in the overarching framework being promoted by the Federal Government in responding to this health crisis.

The Australian JobKeeper Payment policy is significantly different to the UK version but shares several key attributes with the New Zealand wage subsidy policy.

The Australian wages subsidy policy has similar eligibility criteria to the New Zealand model with regard to revenue loss attributable to COVID-19, although it has the added detail of differentiating the hurdle for businesses turning over more than \$1 billion from those below that level.

The Australian approach has a single rate of subsidy that applies across the board to part time and full time employees irrespective of their earnings. Like the New Zealand approach the Australian model puts an obligation on businesses to retain workers on their books and to pay them the greater of two amounts: their current wage or the subsidy. In the case of a worker who earns more than the subsidy amount

(\$1,500 per fortnight) the employer pays this higher amount and then recovers the \$1,500 subsidy from the Australian Taxation Office. The Australian model allows employers to negotiate remuneration outcomes with their workers consistent within the existing industrial relations framework.

This package should go a long way to provide comfort to workers who have already been stood down or look like their places of work will shut for a period of time. Certainty of income should also alleviate the potential follow-on societal risks that are associated with financial strain, including domestic violence, mental health and substance abuse.

Again, the overall policy response to COVID-19 has been proportionate on a step-wise basis. The colloquial "bridge to the other side" is being built by government, regulators, businesses and individuals, and this additional piece to the 'puzzle bridge' acts more like a bearer that anchors the bridge from both sides of this health crisis.

We also highlight the fact that one alternative to doing something like this policy is to do nothing. While that policy option may result in a much lower level of government debt at the end of this health crisis, it would also likely result in a much smaller, less functioning economy than what we are likely to have because of the JobKeeper Payment policy.

A handwritten signature in black ink that reads "Brendan J. Rynne". The signature is fluid and cursive.

Dr Brendan Rynne

Chief Economist

# Summary of Wage Subsidy

Who is eligible?	How much is the JobKeeper Payment, and when can I receive it?	How does an employer make a claim?
<p><b>Employer types</b> Employers who have been adversely affected by COVID-19 are eligible to apply for the subsidy.</p> <p>This includes:</p> <ul style="list-style-type: none"> <li>• businesses</li> <li>• not-for-profits (including charities)</li> <li>• self-employed individuals</li> </ul> <p><b>Eligible employers</b> Employers whose turnover is reduced relative to a comparable period (of at least a month) a year ago by:</p> <ul style="list-style-type: none"> <li>• 30% (if their turnover is less than \$1 billion), or</li> <li>• 50% (if their turnover is \$1 billion or more),</li> </ul> <p>provided that the employer is not subject to the Major Bank Levy,</p> <p><b>Eligible individuals</b> Those who are:</p> <ul style="list-style-type: none"> <li>• Currently employed by the eligible employer,</li> <li>• Or, were employed by the eligible employer as at 1 March 2020, but have since been retrenched and then are re-hired,</li> <li>• At least 16 years old,</li> <li>• Not receiving JobKeeper payments from another employer,</li> <li>• An Australian citizen / permanent resident, or holder of certain visa types,</li> <li>• Employed full-time or part-time. Also casual employees with more than 12 months' regular service.</li> <li>• Self-employed</li> </ul>	<p><b>Rate of JobKeeper payment</b> Flat rate subsidy of \$1,500 per eligible employee per fortnight.</p> <p>This amount applies both for employees who earn more than this amount, and for those who do not.</p> <p><b>How and when will employers receive the subsidy?</b> The Australian Taxation Office (ATO) will pay the Jobkeeper amounts to the employer.</p> <p>Payments will commence in early May, backdated to March. The ATO will make the payments fortnightly.</p> <p><b>Tax status of JobKeeper payment</b> The JobKeeper payment is taxable income for the employee.</p> <p>The employer is not required to make superannuation contributions in respect of the subsidy it receives. However it must continue to make superannuation contributions on any wages the employee is entitled to under the employment agreement or award for the work that he or she does.</p>	<p><b>To receive the subsidy</b> Employers are required to:</p> <ul style="list-style-type: none"> <li>• Register their interest in the JobKeeper payment on the ATO website. The ATO website currently indicates that those who register will receive relevant updates.</li> <li>• Provide information on their eligible employees to the ATO (including the number of eligible employees engaged with the employer as at 1 March, and those currently employed – including those stood down and those rehired). The ATO will use Single Touch Payroll data to assist in this process by pre-population.</li> <li>• Ensure all eligible employees receive at least \$1,500 per fortnight before tax, even if their previous income was less than this amount.</li> <li>• Notify eligible employees that they are receiving the subsidy.</li> <li>• Continue to provide the ATO with relevant information monthly – including the number of eligible employees employed by their business.</li> </ul>

# Cost of all Measures

ANNOUNCEMENT	\$Bn
<b>Federal Wage Subsidy Package – Fiscal Support – 30 March 2020</b>	
Wage subsidy for employers of \$1,500 per fortnight per employee	130.0
<b>SUBTOTAL</b>	<b>130.0</b>
<b>Second Federal Support Package – Fiscal support – 22 March</b>	
COVID-19 JobSeeker supplement (\$550 per fortnight) / Household support to social security recipients	18.1
Lower social security deeming rates due to low interest	0.9
Temporary early release of superannuation	1.2
Boosting cashflow for employers (in addition to First Package funding)	25.2
Aviation package of reduced charges	0.7
<b>SUBTOTAL</b>	<b>46.1</b>
<b>Second Federal Support Package – Balance Sheet Support – 22 March</b>	
SME Guarantee Scheme for 50% loans with banks	20.0
<b>SUBTOTAL</b>	<b>20.0</b>
<b>RBA Announcement – Balance sheet support – 19 March 2020</b>	
RBA – Banks funding \$90 billion at 0.25% to lend to businesses	90.0
AOFM – markets used by smaller lenders	15.0
<b>SUBTOTAL</b>	<b>105.0</b>
<b>First Federal Support Package – 12 March 2020</b>	
Initial payment to support those on social security etc	4.8
Initial package for cashflow boost for SMEs / Supporting apprentices & trainees	7.9
Increasing instant asset write-off / Accelerated depreciation	3.9
Support for regions	1.0
<b>SUBTOTAL</b>	<b>17.6</b>
<b>Other Federal Announcements</b>	
Health Package	2.5
Aged Care	0.4
Second Health Package	1.1
Regional aviation package	0.3
<b>SUBTOTAL (ALL FEDERAL)</b>	<b>323.0</b>
<b>State Support (mix of fiscal and balance sheet)</b>	
NSW	3.3
Victoria	1.8
Queensland	4.5
Western Australia	1.4
South Australia	1.0
Tasmania	1.0
ACT	0.1
NT	0.1
<b>SUBTOTAL (ALL STATE)</b>	<b>13.2</b>
<b>TOTAL FEDERAL AND STATE SUPPORT</b>	<b>336.2</b>

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