

24 September 2020

COSBOA Communique

Recovery, insolvency and mental health priorities

SYNOPSIS

COSBOA's COVID-19 Roundtable seeks to engage SME representative industry bodies and related stakeholders in a discussion about current issues being experienced by SMEs in the wake of the COVID-19 economic downturn and the potential initiatives that could be progressed to support economic recovery and support job creation in the future. This latest meeting was conducted on **Friday, 18 September 2020** - at a time when Metropolitan Melbourne was still operating under Stage 4 lockdown restrictions and restrictions had been relaxed in R=regional Victoria.

The meeting was addressed by Mr Martin Jacobs (Assistant Commissioner, Commonwealth Business Registry Service, Australian Tax Office) and Ms Julie Donohue (Director, ID Onboarding Team, Australian Tax Office) who provided a presentation on the ATO project for modernisation of the Australian Business Register (including the new Directors Identification Number system). The presentation was well received by all participants who recognised that these initiatives will go a long way to addressing a longstanding issue for business owners and regulators (i.e. ATO, ASIC and Treasury) alike.

Participants discussed issues associated with the transition from JobKeeper stage 1 (ending 28 September 2020) and JobKeeper stage 2, with a focus on the need for the process to be as seamless as possible. The growing insolvency risk for SM's and related mental health issues were also significant topics of conversation at this roundtable.

A brief summary of the key themes discussed at this meeting is provided below.

KEY THEMES

1. JobKeeper is likely to remain a vital lifeline for many vulnerable SMEs beyond September 2020, with an estimated 33% of businesses expected to receive Stage 2 JobKeeper payments

- Business eligibility for Stage 2 JobKeeper payments will need to demonstrate that their income during the September 2020 quarter has declined by at least 30% or more compared with the same quarter in 2019. For the purposes of income calculation, income derived from the sale of any business assets during the quarter is to be included as declared income (i.e. despite not applying in Stage 1).
- Notwithstanding the significant guidance available on the ATO website, accountants and book keepers (and specialist tax agents) are dealing with a marked increase in inquiry, as current JobKeeper businesses seek to understand their eligibility (or otherwise) for Stage 2 JobKeeper payments – including requests for the necessary

certification of revenue declines. This demand is placing significant pressure on these service providers.

- The business software industry has advised that the industry has managed to upgrade business software platforms in time to support a smooth transition for businesses, despite the relatively tight timeframe.
- Despite some of the potential challenges associated with a seamless transition from Stage 1 to Stage 2 support, roundtable participants agreed that JobKeeper remains a vital lifeline for many SMEs impacted by the COVID-19 economic downturn (particularly in Victoria), with around 1/3 of JobKeeper Stage 1 businesses likely to continue to access Stage 2 payments.

2. Management of looming insolvency and bankruptcy issues for SMEs remains a substantial concern despite the recent extension of the current safe harbour provisions to 31 December 2020.

- While the extension of the temporary COVID-19 insolvency protections are welcome, there is an urgent need to consider a mechanism to deal with an expected significant increase in insolvency actions once the protections are ultimately retired. This observation raises significant questions about:
 - a) the adequacy of current insolvency practices from the perspective of a small business owner, as identified in the ASBFEO's July 2020 Insolvency Practices Report (see <https://www.asbfeo.gov.au/sites/default/files/Insolvency%20Inquiry%20Final%20Report.pdf>), and;
 - b) The capacity of the profession to support the increased demand for insolvency services from SMEs.
- The expected large number of insolvencies in the SME sector will require simultaneous advancement of actions that both support the mental health needs of business owners and minimise the financial collateral damage to business owners and employees alike.

3. The health and well-being of SME workplaces is best protected by ensuring that meaningful measures are put in place to support the health and well-being of the small business owner, as well as employees.

- Roundtable participants noted that most mentally healthy workplace initiatives have been developed from an OH&S perspective and, as such, are employee centric. This is despite the fact that the biggest factor influencing the mental state of an SME workplace is the mental well-being (or otherwise) of the business owner. Indeed, some of the programmes being advanced place a disproportionately high and largely inappropriate burden on the business owner to support the mental well-being of their employees without direct personal support for same.
- The maintenance of mentally healthy workplaces is a shared responsibility between the business owner and their employees. Regulations and government policy that seeks to assign blame and/or prosecute employers for all the mental health issues of their employees is counter-productive for the vast majority of employers who are striving to do the right thing during an unprecedented economic downturn (with its contingent mental health consequences for all people).

- There is a strong and urgent need for the development and provision of a *peer-to-peer* mental health support service for SME employers – one that operates between the extremes of low assistance initiatives (i.e. a telephone helpline) and high intensity assistance initiatives (i.e. a psychologist). Within this context, new programmes should be developed to better support the well-being of employers so that they, in turn, are better positioned to support the mental well-being of their own employees.

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