Grant Thornton

Accounting for JobKeeper

Points of reference for preparers of financial reports

Introduction

The recent COVID-19 outbreak has caused extensive disruptions to the global economy. In Australia, specific legislation was introduced to respond to the economic ramifications of the pandemic, including the wage subsidy known as "JobKeeper". Some sectors are not eligible. Common examples include businesses subject to the Major Bank Levy, Australian government agencies, local governments and companies in liquidation.

This document seeks to provide guidance on the key accounting implications of JobKeeper that management will need to consider.

Background to JobKeeper

The JobKeeper scheme provides eligible employers with a wage subsidy of $1,500 per fortnight for wages paid to eligible employees during the six-month period starting on 30 March 2020 (subject to amendment).

For employees who are working, the scheme provides a wage subsidy to the employer. For employees who are not working because they have been stood down (including terminated and rehired), it enables the employer to pay a minimum wage to the employee and provides an ongoing connection between employer and employee. These connections will enable businesses to reactivate their operations quickly, without having to rehire employees, once operations are able to recommence.

The scheme is voluntary - notwithstanding that an employer may satisfy the eligibility requirements, they are not required to apply for JobKeeper and thus do not have to make payments to employees. The scheme is being administered by the Australian Taxation Office ('ATO'), and includes stringent reporting and record keeping obligations.

The JobKeeper payment to the employer is fixed at $1,500 per fortnight, per employee, and the employer must have paid the employee at least $1,5000 per fortnight to be entitled to the payment. Payments to eligible employers are paid by the ATO monthly in arrears.

Superannuation remains payable by the employer on the employee's regular salary or income, however it is at the employer's discretion as to whether superannuation is paid on any additional income that arises because of the JobKeeper payment (that is, any excess of the JobKeeper payment over the employee's regular income for hours worked).

No superannuation is payable for employees who are not physically working (such as due to a stand-down) but receiving the $1,500 payment.

Employers (including not-for-profit entities) can qualify for JobKeeper if they have eligible employees and:

- on 1 March 2020, they were carrying on a business in Australia, or was a not-for-profit body pursuing its objectives principally in Australia, and
- the employer:
  - has an aggregated turnover of less than $1 billion and their GST turnover declines by 30% or more, or
  - has an aggregated turnover of $1 billion or more and their GST turnover declines by 50% or more.

Certain charities registered with the ACNC only need to decline by 15% or more. The method of measuring the decline in turnover is defined in the Rules.

Certain other exceptions also exist – such as sovereign ownership restrictions.

For more information, please visit Unpacking the JobKeeper Subsidy, a Grant Thornton publication discussing eligibility, measurement, and regulatory compliance. For additional, tailored advice, please contact your Grant Thornton partner.

This document does not constitute advice regarding eligibility.

V1.0

Decline in Turnover Test

The Rules define two decline in turnover tests – the "Basic Test" and an "Alternative Test". According to the Explanatory Statement to the Rules, the turnover test must only be satisfied once for a business to be eligible for the JobKeeper scheme – there is no requirement to retest in later months.

Basic Test

The Basic Test involves a comparison of the business' projected GST turnover for a 'turnover test period' compared with the business' current GST turnover for a corresponding period in 2019 and showing that the relevant percentage reduction has occurred.

Alternative Test

An Alternative Test applies where there is no appropriate relevant comparison period.

The Rules allow the ATO to determine that an alternative decline in turnover test applies to a class of entities, if the ATO is satisfied that there is not an appropriate relevant comparison period to show a reduction in turnover.

The Alternative Test caters for the following situations:

- Start-up businesses;
- Businesses which have experienced a disposal, acquisition or restructure;
- An entity which actually had a substantial increase in turnover during the comparison period;
- An entity impacted by drought or some other type of natural disaster;
- A entity with irregular turnover; and
- A sole trader or small partnership, impacted by sickness, injury or leave.

Definition of "GST turnover"

GST turnover concepts are used to calculate the decline in turnover (disregarding GST grouping rules) as it only includes supplies that have a connection with Australia.

The definition of GST turnover includes:

- all taxable supplies; and
- all GST free supplies,

but excludes

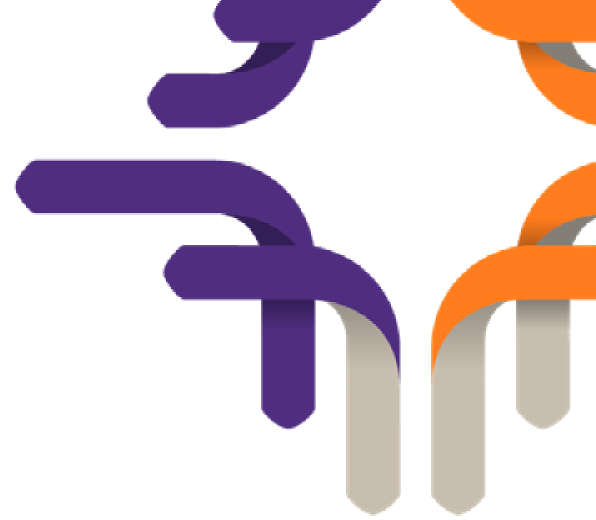
- input taxed supplies (e.g. residential rent, financial products); and
- certain sales from capital assets.

The 'Turnover test period' must be:

- a calendar month that ends after 30 March 2020 and before 1 October 2020; or
- a quarter that starts on 1 April 2020 or 1 July 2020.

Audit-readiness

Getting ready for audit is not just about books but also records – including any information that demonstrates why an entity is eligible for JobKeeper. Management should consider preparing an information pack that clearly demonstrates eligibility for the grant – both for the auditors, and to demonsrate the eligibility for any amounts receivable at period-end.



Accounting for JobKeeper

A determination must be made as to whether the employer is acting as a principal or an agent as it relates to the scheme, and whether the employer needs to account for the JobKeeper amounts rather than present it as a pass-through to the eligible employees. When considering the facts:

- The JobKeeper scheme is to assist entities to sustain their businesses while retaining their employees;
- The employer has discretion whether to register for the JobKeeper scheme;
- The employer needs to meet certain turnover criteria to be eligible for the JobKeeper scheme;
- Employees must give permission to employers to claim the JobKeeper payment (to avoid double counting by multiple employers claiming JobKeeper amounts for the same employee);
- Employees do not have control over whether employers claim JobKeeper payments. Employees also cannot force employers to keep them employed, pay them at least $1,500 per fortnight, and then claim JobKeeper on their behalf; and
- The employer must pay employees before they are eligible to receive the JobKeeper payments as reimbursements,

it is probable that the employer is a principal in the arrangement and should thus present JobKeeper gross on its statement of financial performance.

For-profit entities

For-profit entities must apply AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance*.

The grant (i.e. JobKeeper) is recognised as income when the employer is reasonably assured that it will comply with the conditions attaching to it, and the grant will be received (AASB 120.7). The grant is recognised as a receivable when the associated wage payments are made. Receipt of reimbursement from the ATO reduces the receivable (AASB 120.20).

AASB 120 requires entities to match income and expenses. It allows a presentation choice for the grant of:

- presentation as "income"; or
- being deducted from the related expenses.

While this is at the option of the employer, the chosen approach must be applied in a manner consistent with accounting policies applied to similar government grants.

In some cases, the costs of eligible employees may form part of costs eligible to be capitalised into assets under AASB 116 *Property, Plant and Equipment*, AASB 138 *Intangible Assets*, AASB 102 *Inventories* or AASB 15 *Revenue from Contracts with Customers*.

The requirements of AASB 120 only permit government grants to be recognised "over the periods in which the entity recognises as expenses the related costs for which the grants are intended to compensate" (AASB 120.12). Because the employee payments are capitalised into the cost of assets, they are only expensed when those assets are depreciated, amortised, impaired or derecognised. AASB 120 provides an accounting policy choice of:

- deducting the grant from the related expenses; or
- treating the grant as unearned income, and subsequently recognising income to match the expensing of the asset.

Not-for-profit entities

For not-for-profit (NFP) entities, AASB 1058 *Income of Not-for-Profit Entities* applies. AASB 15 does not apply as the employer pays no consideration to acquire the JobKeeper payment and there is no sufficiently specific performance obligation.

AASB 1058 does not include guidance on when amounts should be recognised. Instead, it references to various other Accounting Standards to deal with when an asset should be recognised. The 'receivable' is not dealt with by any specific Accounting Standard (because statutory receivables are not contractual and therefore not financial instruments under AASB 9 *Financial Instruments* due to the definition in AASB 132 *Financial Instruments*: Presentation). Consequently, it is necessary to consider the 'hierarchy' in AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* and apply the requirements of Accounting Standards dealing with similar and related issues to determine the appropriate accounting. In this regard, NFP entities would likely apply by analogy the AASB 120 'reasonable assurance' requirements (i.e. as above for for-profit entities).

Unlike AASB 120, AASB 1058 doesn't allow NFP entities a choice between presenting as other income and deduction from related expenses. Accordingly, the grant income needs to be recognised as income (not revenue) immediately.

Why does sector matter?

AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance* is limited in scope to only apply to for-profit entities. International Financial Reporting Standards, upon which Australian Accounting Standards are based, are not designed for use by not-for-profit entities.

In response, the Australian Accounting Standards Board has included "Aus" paragraphs within the standards, as well as issuing AASB 1058 *Income of Not-for-Profit Entities* which is scoped to only be applicable to not-for-profit entities.

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