

Alternative Decline in Turnover Tests

In order for an employer (or an eligible business participant) to be entitled to a JobKeeper Payment ('JKP'), they must, amongst other things, qualify for the JobKeeper Scheme ('JKS'). This means the entity carried on business in Australia on 1 March 2020 and satisfied the **decline in turnover test**.

The *Coronavirus Economic Response Package (Payments and Benefits) Rules 2020* ('the Payment Rules') provide for two different decline in turnover tests, being the '**Basic test**' and the '**Alternative test**'. Both tests involve comparing the entity's turnover in the 'turnover test period' with its turnover in the 'relevant comparison period'.

The 'turnover test period' must either 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.

However, this guide only focuses on whether the entity satisfies the decline in turnover test where the 'turnover test period' is **March 2020, April 2020** or the **June 2020 quarter**. This is because it is one of these 'turnover test periods' that must be satisfied for the entity to be entitled to a JKP in JobKeeper Fortnights 1 and 2.

The BASIC decline in turnover test

Under the Basic test, the entity compares its projected GST turnover for the 'turnover test period' with its current GST turnover for the 'relevant comparison period' (being the corresponding period in 2019).

For the purposes of this guide, the following table highlights the specific comparisons that can be made:

Basic decline in turnover test	
Compare <i>projected</i> GST turnover for the:	With <i>current</i> GST turnover for the:
month of March 2020	month of March 2019
month of April 2020	month of April 2019
June 2020 quarter	June 2019 quarter

Broadly, an entity will pass the Basic test if its 2020 projected GST turnover (i.e., left column) is **at least 30% less** than the corresponding 2019 current GST turnover (i.e., right column) in **any one** of the above comparisons. Importantly, as the decline in turnover test is only required to be satisfied **once**, there is no requirement to satisfy the test again for a subsequent turnover test period.

Note:

- The entity is free to use a monthly comparison even if it is a quarterly BAS lodger and, equally, the entity is free to use a quarterly comparison even if it is a monthly BAS lodger.*
- On the issue of whether to use the cash or accruals basis in working out the relevant GST turnover, the ATO's JobKeeper factsheet (as at 29 April 2020) states the following:*

As a practical matter, we expect that you will use the GST accounting you normally use. In other words, you may use a cash or accruals approach to determining the value of your sales in the relevant quarter or month.

Alternative Decline in Turnover Tests

If you normally account for GST on an accruals basis, but seek to calculate on a cash basis (or vice versa), we may seek to understand your circumstances to ensure that the calculation achieves an appropriate reflection of your turnover.

*If you **aren't registered for GST**, we would expect you to use the same accounting method you use for income tax purposes.*

Importantly, whichever basis you use must be used consistently in comparing the month or quarter in 2020 with the comparison month or quarter in 2019.

In most cases, the decline in turnover across the two comparison periods must be **at least 30%**. However, the decline must be **at least 50%** if the entity's aggregated turnover exceeds \$1 billion in the *previous* income year or is likely to exceed \$1 billion in the *current* income year. However, the decline is only required to be 15% if the entity is an ACNC-registered charity (other than universities and non-government schools). Note that government schools do not qualify for the JKS in the first place.

The comparisons period in the above table apply to entities who are seeking JKPs for the **first two fortnights**, i.e., fortnight 1 from 30 March 2020 to 12 April 2020 and fortnight 2 from 13 April 2020 to 26 April 2020. If the entity satisfies the decline in turnover test for these two fortnights, they are not required to satisfy the test again in relation to fortnights 3-13.

If the entity does not satisfy the decline in turnover test at a particular point in time and, hence, is not entitled to enrol for the JKS, it may become eligible to enrol at a later time. For example, as Fortnight 3 ends on 10 May 2020, an entity can assess its eligibility to enrol in relation to this fortnight by comparing its projected GST turnover for May 2020 with its current GST turnover for May 2019. It can also reconsider whether its projected GST turnover for the June 2020 quarter can be adjusted downwards.

Obviously, some entities may suffer the requisite decline in turnover later than others. As such, the door remains open for them to qualify for the JKS at that time.

The ALTERNATIVE decline in turnover test

The Payment Rules acknowledge that the comparisons required to be made under the Basic test may not be appropriate in all circumstances. They do this by authorising the Commissioner to determine (by way of Legislative Instrument) an **alternative** decline in turnover test for a class of entities.

On 23 April 2020, the Commissioner released the *Coronavirus Economic Response Package (Payments and Benefits) Alternative Decline in Turnover Test Rules 2020* ('Turnover Rules'). The Rules and Explanatory Statement can be found at:

<https://www.legislation.gov.au/Details/F2020L00461/Download>

In the Turnover Rules, there are **seven classes of entities identified** and an alternative decline in turnover test for each one of those classes.

Those seven classes of entities are as follows:

- 1. New businesses**
- 2. Business with a substantial increase in turnover**
- 3. Business with an irregular turnover**
- 4. Business affected by drought or natural disaster**
- 5. Business acquisition or disposal that changed the entity's turnover**

6. Business restructure that changed the entity's turnover

7. Sole traders or small partnerships with sickness, injury or leave

Although the Basic test requires an entity to compare its projected GST turnover (for the turnover test period) with its current GST turnover (for the relevant comparison period), the Alternative test allows the entity to calculate its current GST turnover in a different way, while leaving its projected GST turnover unchanged.

The Alternative test for each of the above class of entities also factors in special rules if the entity qualified for the ATO's *Bushfires 2019-2020 lodgment and payment deferrals* or received *Drought Help* concessions.

Note also that it is possible that an entity may be eligible to apply the Alternative test in more than one of the seven classes listed above. If this is the case, it only needs to satisfy the Alternative test in **one** of those classes to satisfy the decline in turnover test and qualify for the JKS.

Following is an explanation of each the Alternative tests for classes 1 to 3 above and a summary of the Alternative tests for classes 4 to 7.

Note: The discussion below, and the examples used, are based on the Turnover Rules released by the ATO. It can be noted that some of the examples in the Explanatory Statement do not strictly follow those Rules. This perhaps suggests that the ATO are prepared, to some degree, to be flexible when it comes to an entity assessing whether it satisfies the Alternative decline in turnover test applicable to its circumstances.

The NTAA has sought clarification from the ATO on this matter, but the ATO are yet to provide a response. It suggested, as an overriding principle, that any approach adopted by an entity should be 'reasonable, to the extent it deviates from the Turnover Rules.

1. Alternative decline in turnover tests for new businesses

The problem for an entity that commenced a new business is that if the business was not being carried on during any of the relevant comparison periods in 2019, it is not possible for the entity to satisfy the Basic test. Clearly, such businesses can still have their turnover affected by COVID-19, as such, and the Alternative test provides these entities with two opportunities (i.e., two different Alternative tests) to satisfy the decline in turnover test and qualify for the JKS.

1.1 When can an entity apply these Alternative tests?

Pursuant to S.6(1) of the Turnover Rules, an entity can apply either of the Alternative tests if the entity **commenced business before 1 March 2020** but **after** the relevant comparison period in 2019.

It is clear than entity that commenced carrying on business on or after 1 July 2019 would fall within this class whereas an entity that commenced carrying on business before 1 March 2019 would not. Whilst not entirely clear, it may be arguable for an entity that commenced carrying on business between 1 March 2019 and 30 June 2019 to also be eligible under this class on the basis that not *all* of the relevant comparison periods are available to them.

The Explanatory Statement Accompanying the Turnover Rules provides that the alternative tests do not apply to an entity that was operating one or more businesses and commenced an additional business.

1.2 What is Alternative test 1?

If the turnover test period is a month, (i.e., March or April 2020), then rather than comparing its projected GST turnover for that month with its current GST turnover for the relevant comparison period, i.e., March or April 2019, it compares it with its *average monthly turnover*⁹.

Alternative Decline in Turnover Tests

Average monthly turnover is:

the sum of the entity's current GST turnover for each whole month after the entity commenced business and before 1 March 2020

divided by

the number of whole months

Therefore, if the entity commenced business on 5 July 2019:

- the *numerator* in the above fraction will be the entity's total current GST turnover for the period 1 August 2019 to 29 February 2020; and
- the denominator will be 7 (i.e., 7 months)

❶ *If the business commenced on or after 1 February 2020 (but before 1 March 2020), it compares its projected GST turnover with its average daily turnover for February 2020 multiplied by 29.*

If the turnover test period is a quarter, (i.e., June 2020 quarter), then rather than comparing its projected GST turnover for that quarter with its current GST turnover for the relevant comparison period, (i.e., June 2019 quarter), it compares it with its:

average monthly turnover^❷ (as calculated above)

times

3

❷ *If the business commenced on or after 1 February 2020 (but before 1 March 2020), use the amount described at ❶ above.*

1.3 What is Alternative test 2?

For this alternative test to apply, the entity must have commenced business **no later than 1 December 2019**.

If the turnover test period is a month (i.e., March or April 2020), then rather than comparing its projected GST turnover for that month with its current GST turnover for the relevant comparison period, (i.e., March or April 2019), it compares it with its *three months average monthly turnover*.

3 months average monthly turnover is:

the sum of the entity's current GST turnover for each of December 2019, January 2020 and February 2020

divided by

3

Therefore, if the entity commenced business on 15 August 2019:

- the *numerator* in the above fraction will be the entity's total current GST turnover for the period 1 December 2019 to 29 February 2020; and
- the *denominator* will be 3 (it will always be 3 for alternative test 2).

If the turnover test period is a quarter, (i.e., June 2020 quarter), then rather than comparing its projected GST turnover for that quarter with its current GST turnover for the relevant comparison period (i.e., June 2019 quarter), it compares it with:

the sum of the entity's current GST turnover for each of December 2019, January 2020 and February 2020.

1.4 Bushfire deferrals and Drought Help concessions

Where an entity qualified for the ATO's *Bushfires 2019-2020 lodgment and payment deferral* or received *Drought Help* concessions, then for the purposes of the calculations above, exclude any months covered by:

Alternative Decline in Turnover Tests

- (a) the *Bushfires 2019–2020 lodgment and payment deferrals*; or
(b) the *Drought Help* concessions,

unless those are the only months since the entity commenced the business.

1.5 Case study

Hapthor Pty Ltd ('Hapthor') commenced carrying on business on 22 July 2019. As it commenced business after the relevant comparison periods and before 1 March 2020, it is eligible to apply both the Alternative tests.

The following table contains Hapthor's current GST turnover and projected GST turnover:

Monthly turnover of Hapthor Pty Ltd		
Month	Current GST turnover	Projected GST turnover
July 2019	\$112,000	
August 2019	\$116,000	
September 2019	\$121,000	
October 2019	\$128,000	
November 2019	\$142,000	
December 2019	\$165,000	
January 2020	\$110,000	
February 2020	\$104,000	
March 2020	\$84,000	\$84,000
April 2020		\$50,000
May 2020		\$45,000
June 2020		\$45,000

1.5.1 Does Hapthor Pty Ltd satisfy Alternative test 1?

Turnover Test period – March 2020

Under Alternative test 1, Hapthor compares its projected GST turnover for March 2020 with its current GST turnover for the period 1 August 2019 to 29 February 2020.

Current GST turnover

Average monthly turnover for period:

1 August 2019 - 29 February 2020 \$886,000 (note: only whole months included)

Divided by

Whole months 7 months

\$126,571

Projected GST turnover

\$ 84,000

Hapthor's projected GST turnover is **33.64%** (i.e., $(\$126,571 - \$84,000) / \$126,571$) lower than its current GST turnover. As this is at least 30%, Hapthor satisfies the decline in turnover test and qualifies for the JKS.

Note: if the turnover test period was April 2020, Hapthor's projected GST turnover of \$50,000 would be **60.47%** (i.e., $(\$126,571 - \$50,000) / \$126,571$) lower than its current GST turnover of

Alternative Decline in Turnover Tests

\$126,571. As this is also at least 30%, Hapthor would satisfy the decline in turnover test and qualify for the JKS.

Turnover Test period – June 2020 quarter

Under Alternative test, Hapthor compares its projected GST turnover for the June 2020 quarter with its current GST turnover for the period 1 August 2019 to 29 February 2020 multiplied by 3.

Current GST turnover

<i>Average monthly turnover for period</i>	\$126,571 (as calculated above)
	x 3
	<u>\$379,713</u>

Projected GST turnover **\$140,000** (for April, May and June 2020)

Hapthor's projected GST turnover is **63.13%** (i.e., $(\$379,713 - \$140,000) / \$379,713$) lower than its current GST turnover. As this is at least 30%, Hapthor satisfies the decline in turnover test and qualifies for the JKS.

1.5.2 Does Hapthor Pty Ltd satisfy Alternative test 2?

Turnover Test period – March 2020

Under Alternative test 2, Hapthor compares its projected GST turnover for March 2020 with its current GST turnover calculated as its 3-months' average monthly turnover for the period 1 December 2019 to 29 February 2020.

Current GST turnover

Average monthly turnover for period:

1 December 2019 - 29 February 2020	\$379,000
	÷ 3
	<u>\$126,333</u>

Projected GST turnover **\$ 84,000**

Hapthor's projected GST turnover is **33.5%** (i.e., $(\$126,333 - \$84,000) / \$126,333$) lower than its current GST turnover. As this is at least 30%, Hapthor satisfies the decline in turnover test and qualifies for the JKS.

Note: if the turnover test period was April 2020 Hapthor's projected GST turnover of \$50,000 would be **60.42%** (i.e., $(\$126,333 - \$50,000) / \$126,333$) lower than its current GST turnover of \$126,333. As this is also at least 30%, Hapthor would satisfy the decline in turnover test and qualify for the JKS.

Turnover Test period – June 2020 quarter

Under Alternative test 2, Hapthor compares its projected GST turnover for the June 2020 quarter with its current GST turnover for the period 1 December 2019 to 29 February 2020.

Current GST turnover

Turnover for period

1 December 2019 - 29 February 2020	<u>\$379,000</u> (as calculated above)
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Projected GST turnover **\$140,000** (turnover for April, May and June 2020)

Alternative Decline in Turnover Tests

Hapthor's projected GST turnover is **63.06%** (i.e., $(\$379,000 - \$140,000) / \$379,000$) lower than current GST turnover. As this is at least 30%, Hapthor satisfies the decline in turnover test and qualifies for the JKS.

1.5.3 What if Hapthor Pty Ltd was eligible for the Bushfire deferrals or received the Drought Help concessions?

As mentioned at Heading 1.4 above, the calculation of an entity's current GST turnover will exclude any month in which the entity was eligible for the ATO's Bushfires 2019-2020 lodgment and payment deferral or received the Drought Help concessions.

For example, if Hapthor was eligible for the Bushfires deferrals for January and February 2020, the current GST turnover for these months would be ignored in any of the calculations above. If Hapthor was applying Alternative test 1, it would calculate its average monthly turnover for the period 1 August 2019 to 31 December 2019 rather than 1 August 2019 to 29 February 2020.

2. Alternative decline in turnover test for businesses with a substantial increase in turnover

The problem for an entity that has had a steadily growing turnover is that its turnover in March or April 2020 (or the June 2020 quarter) may have dropped significantly when compared to recent months but not in relation to the corresponding periods in 2019. Fortunately, the Turnover Rules contain an Alternative test to allow such entities to assess whether they qualify for the JKS.

2.1 When can an entity apply this Alternative test?

Pursuant to S.9(1) of the Turnover Rules, an entity can apply the Alternative test if the entity had an increase in turnover of:

- (a) 50% or more in the 12 months immediately before the applicable turnover test period; or
- (b) 25% or more in the 6 months immediately before the applicable turnover test period; or
- (c) 12.5% or more in the 3 months immediately before the applicable turnover test period.

The entity only needs to satisfy **one** of the above to be able apply the Alternative test. Unfortunately, the Turnover Rules and the ES do not specifically clarify *how* these tests are to be applied, which has created some debate and uncertainty. The following analysis of the tests are based on the NTAA's view of how the tests are to be applied.

12-month test

If the turnover test period is **March 2020**:

- this test is satisfied if the entity's current GST turnover in February 2020 was at least 50% higher than it was in February 2019.

If the turnover test period is **April 2020** or the **June 2020 quarter**:

- this test is satisfied if the entity's current GST turnover in March 2020 was at least 50% higher than it was in March 2019.

6-month test

If the turnover test period is **March 2020**,

- this test is satisfied if the entity's current GST turnover in February 2020 was at least 25% higher than it was in August 2019.

Alternative Decline in Turnover Tests

If the turnover test period is **April 2020** or the **June 2020 quarter**:

- this test is satisfied if the entity's current GST turnover in March 2020 was at least 25% higher than it was in September 2019.

3-month test

If the turnover test period is **March 2020**:

- this test is satisfied if the entity's current GST turnover in February 2020 was at least 12.5% higher than it was in November 2019.

If the turnover test period is **April 2020** or the **June 2020 quarter**:

- this test is satisfied if the entity's current GST turnover in March 2020 was at least 12.5% higher than it was in December 2019.

2.2 What is the Alternative test?

If the turnover test period is a month (i.e., March or April 2020), then rather than comparing its projected GST turnover for that month with its current GST turnover for the relevant comparison period, (i.e., March or April 2019), it the entity compares it with its *3 months average monthly turnover*.

3 months average monthly turnover is:

the sum of the entity's current GST turnover for each of the 3 months before the turnover test period⁹

divided by

3

- ⁹ if the turnover test period is March 2020 - the numerator in the above fraction will be the entity's total current GST turnover for the period 1 December 2019 to 29 February 2020. If the turnover test period is April 2020 - the numerator in the above fraction will be the entity's total current GST turnover for the period 1 January 2020 to 31 March 2020.

If the turnover test period is a quarter (i.e., June 2020 quarter), then rather than comparing its projected GST turnover for that quarter with its current GST turnover for the relevant comparison period (i.e., June 2019 quarter), the entity compares it with:

the sum of the entity's current GST turnover for each of the 3 months before the turnover test period

That is, the period 1 January 2020 to 31 March 2020.

2.3 Bushfire deferrals and Drought Help concessions

Where an entity qualified for the ATO's *Bushfires 2019-2020 lodgment and payment deferral* or received the *Drought Help* concessions, then for the purposes of the calculations above, use the 3-month period before:

- (a) the *Bushfires 2019-2020 lodgment and payment deferrals* commenced; or
- (b) the *Drought Help* concession commenced.

2.4 Case study

The Isol-8 Trust ('Isol-8') commenced carrying on business on 22 July 2017. The following table contains its current GST turnover and projected GST turnover, which is relevant for determining whether it is eligible to apply the Alternative test and whether it satisfies the Alternative test.

Alternative Decline in Turnover Tests

Monthly turnover of Isol-8 Pty Ltd		
Month	Current GST turnover	Projected GST turnover
February 2019	\$150,000	
March 2019	\$155,000	
August 2019	\$158,000	
September 2019	\$174,000	
November 2019	\$182,000	
December 2019	\$200,000	
January 2020	\$225,000	
February 2020	\$240,000	
March 2020	\$210,000	\$210,000
April 2020		\$150,000
May 2020		\$145,000
June 2020		\$145,000

2.4.1 Does Isol-8 qualify to apply the Alternative test?

Isol-8 only needs to satisfy either the 12-month, 6-month or 3-month test for either March or April 2020 or the June 2020 quarter in order to be eligible to apply the alternative test.

If the turnover test period is March 2020

- Under the **12-month test**, Isol-8's current GST turnover:
 - February 2020: \$240,000
 - February 2019: \$150,000

As the turnover has increased by 60% (i.e., $\$240,000 - \$150,000 / \$150,000$) or by at least 50% over this 12-month period, it is eligible to apply the alternative test.

- Under the **6-month test**, Isol-8's current GST turnover:
 - February 2020: \$240,000
 - August 2019: \$158,000

As the turnover has increased by 51.89% (i.e., $(\$240,000 - \$158,000) / \$158,000$) or by at least 25% over this 6-month period, it is eligible to apply the alternative test.

- Under the **3-month test**, Isol-8's current GST turnover:
 - February 2020: \$240,000
 - November 2019: \$182,000

As the turnover has increased by 31.86% (i.e., $(\$240,000 - \$182,000) / \$182,000$) or by at least 12.5% over this 3-month period, it is eligible to apply the alternative test.

If the turnover test period is April 2020 or the June 2020 quarter:

- Under the **12-month test**, Isol-8's current GST turnover:
 - March 2020: \$210,000
 - March 2019: \$155,000

As the turnover has increased by 35.48% (i.e., $(\$210,000 - \$155,000) / \$155,000$) or less than 50% over this 12-month period, it is **not** eligible to apply the alternative test.

Alternative Decline in Turnover Tests

- Under the **6-month test**, Isol-8's current GST turnover:

- March 2020: \$210,000
- September 2019: \$174,000

As the turnover has increased by 20.68% (i.e., $(\$210,000 - \$174,000) / \$174,000$) or less than 25% over this 6-month period, it is **not** eligible to apply the alternative test.

- Under the **3-month test**, Isol-8's current GST turnover:

- March 2020: \$210,000
- December 2019: \$200,000

As the turnover has increased by 5.0% (i.e., $(\$210,000 - \$200,000) / \$200,000$) or less than 12.5% over this 3-month period, it is **not** eligible to apply the alternative test.

- ❶ *Because Isol-8 has satisfied the 12, 6 and 3-month tests where March 2020 is the turnover test period, it will be able to apply the alternative test.*

2.4.2 Does Isol-8 satisfy the Alternative test?

Turnover Test period – March 2020

Under the Alternative test, Isol-8 compares its projected GST turnover for March 2020 with its current GST turnover calculated as its average monthly for the period 1 December 2019 to 29 February 2020.

Current GST turnover

Average monthly turnover for period:

1 December 2019 - 29 February 2020	\$665,000
	÷ 3
	<u>\$221,666</u>

Projected GST turnover

\$210,000

Isol-8's projected GST turnover is **5.26%** (i.e., $(\$221,666 - \$210,000) / \$221,666$) lower than its current GST turnover. As this is **not** at least 30%, Isol-8 does **not** satisfy the decline in turnover test.

Turnover Test period – April 2020

Under the Alternative test, Isol-8 compares its projected GST turnover for April 2020 with its current GST turnover calculated as its average monthly turnover for the period 1 January 2020 to 31 March 2020.

Current GST turnover

Average monthly turnover for period:

1 January 2020 - 31 March 2020	\$675,000
	÷ 3
	<u>\$225,000</u>

Projected GST turnover

\$150,000

Isol-8's projected GST turnover is **33.33%** (i.e., $(\$225,000 - \$150,000) / \$225,000$) lower than its current GST turnover. As this is at least 30%, Isol-8 satisfies the decline in turnover test.

Turnover Test period – June 2020 quarter

Under the Alternative test, Isol-8 compares its projected GST turnover for the June 2020 quarter with its current GST turnover calculated as its total monthly turnover for the period 1 January 2020 to 31 March 2020.

Alternative Decline in Turnover Tests

Current GST turnover

Total turnover for period:

1 January 2020 - 31 March 2020 \$675,000

Projected GST turnover \$440,000 (turnover for April to June 2020).

Isol-8's projected GST turnover is **34.81%** (i.e., (\$675,000 - \$440,000) / \$675,000) lower than its current GST turnover. As this is at least 30%, Isol-8 satisfies the decline in turnover test.

3. Alternative decline in turnover test for businesses with an irregular turnover

The problem for an entity that has an irregular turnover is that comparing its turnover in March or April 2020 (or the June 2020 quarter) to the corresponding periods in 2019 may not give an accurate indication of the extent to which its turnover has been affected by COVID-19. Fortunately, the Turnover Rules contain an Alternative test to allow such entities to assess whether they satisfy the decline in turnover test and qualify for the JKS.

3.1 When can an entity apply this Alternative test?

Pursuant to S.11(1) of the Turnover Rules, an entity can apply the Alternative test if:

- the entity's lowest turnover quarter is no more than 50% of the highest turnover quarter, for the quarters ending in the 12 months immediately before the turnover test period; and
- the entity's turnover is not cyclical.

Therefore, the entity will need to identify its current GST turnover for the following quarters:

Turnover test period		
March 2020	April 2020	June 2020 quarter
March 2019	June 2019	June 2019
June 2019	September 2019	September 2019
September 2019	December 2019	December 2019
December 2019	March 2020	March 2020

The entity will then need to identify and compare the quarter with the lowest turnover ('L') and the quarter with the highest turnover ('H'). If L is no more than 50% of H (i.e., no more than ½ of H) or, put another way, H is at least double the amount of L, then the entity qualifies to apply the Alternative test, as long as its turnover is not cyclical.

An entity's turnover will be cyclical where it follows a pattern of being higher at certain times during a year. According to the ES, this test is meant for those entities that have a large irregular variance, as opposed to a regular seasonal variance, in their turnover.

3.2 What is the Alternative test?

If the turnover test period is a month (i.e., March or April 2020), then rather than comparing its projected GST turnover for that month with its current GST turnover for the relevant comparison period (i.e., March or April 2019), the entity compares it with its *average monthly turnover*.

Alternative Decline in Turnover Tests

Average monthly turnover is:

the sum of the entity's current GST turnover for each of the 12 months before the turnover test period^①

divided by

12

- ① *If the turnover test period is March 2020 - the numerator in the above fraction will be the entity's total current GST turnover for the period 1 March 2019 to 29 February 2020. If the turnover test period is April 2020 - the numerator in the above fraction will be the entity's total current GST turnover for the period 1 April 2019 to 31 March 2020.*

If the turnover test period is a quarter, (i.e., June 2020 quarter), then rather than comparing its projected GST turnover for that quarter with its current GST turnover for the relevant comparison period, (i.e., June 2019 quarter), the entity compares it with its

average monthly turnover (as calculated above)

times

3

3.3 Bushfire deferrals and Drought Help concessions

Where an entity qualified for the ATO's *Bushfires 2019-2020 lodgment and payment deferral* or received *Drought Help* concessions, then for the purposes of the calculations above, exclude any months covered by:

- (a) the *Bushfires 2019-2020 lodgment and payment deferrals*; or
- (b) the *Drought Help* concessions.

3.4 Case study

SOE Pty Ltd ('SOE') commenced carrying on business in 2010. The following table contains its current GST turnover and projected GST turnover, which is relevant for determining whether it is eligible to apply the Alternative test and whether it satisfies the Alternative test.

Monthly turnover of SOE Pty Ltd		
Month	Current GST turnover	Projected GST turnover
January 2019	Nil	
February 2019	\$1.4m	
March 2019	Nil	
Total: March 2019 quarter	\$1.4m	
April 2019	\$2.1m	
May 2019	\$3.4m	
June 2019	Nil	
Total: June 2019 quarter	\$5.5m	
July 2019	Nil	
August 2019	Nil	
September 2019	\$2.2m	
Total: Sept 2019 quarter	\$2.2m	
October 2019	Nil	

Alternative Decline in Turnover Tests

Monthly turnover of SOE Pty Ltd		
Month	Current GST turnover	Projected GST turnover
November 2019	\$1.1m	
December 2019	Nil	
Total: Dec 2019 quarter	\$1.1m	
January 2020	\$2.2m	
February 2020	\$2.1m	
March 2020	\$2.1m	\$2.1m
Total: March 2020 quarter	\$6.4m	N/A
April 2020		\$0.5m
May 2020		Nil
June 2020		Nil
Total: June 2020 quarter	N/A	\$0.5m

3.4.1 Does SOE qualify to apply the Alternative test?

If the turnover test period is March 2020

From the four quarters: March 2019, June 2019, September 2019 and December 2019, SOE needs to compare the lowest turnover quarter with the highest turnover quarter.

- Lowest turnover quarter: December 2019 = \$1.1 million.
- Highest turnover quarter: June 2019 = \$5.5 million

Because the turnover in the December 2019 quarter is 20% (i.e., 50% or less) of the turnover in the June 2019 quarter, SOE is eligible to apply the alternative test.

If the turnover test period is April 2020 or the June 2020 quarter

From the four quarters: June 2019, September 2019 and December 2019 and March 2020, SOE needs to compare the lowest turnover quarter with the highest turnover quarter.

- Lowest turnover quarter: December 2019 = \$1.1 million.
- Highest turnover quarter: March 2020 = \$6.4 million

Because the turnover in the December 2019 quarter is 17.18% (i.e., 50% or less) of the turnover in the March 2020 quarter, SOE is eligible to apply the alternative test.

3.4.2 Does SOE satisfy the Alternative test?

Turnover Test period - March 2020

Under the Alternative test, SOE compares its projected GST turnover for March 2020 with its current GST turnover calculated as its average monthly turnover for the period 1 March 2019 to 29 February 2020.

Current GST turnover

Average monthly turnover for period:

1 March 2019 - 29 February 2020	\$13,100,000
	÷ 12
	<u>\$ 1,091,666</u>

Projected GST turnover	<u>\$ 2,100,000</u>
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Alternative Decline in Turnover Tests

SOE's projected GST turnover is **not** lower than its current GST turnover. As such, SOE does **not** satisfy the decline in turnover test.

Turnover Test period – April 2020

Under the Alternative test, SOE compares its projected GST turnover for April 2020 with its current GST turnover calculated as its average monthly turnover for the period 1 April 2019 to 31 March 2020.

Current GST turnover

Average monthly turnover for period:

1 April 2019 - 31 March 2020	\$15,200,000
	÷ 12
	<u>\$ 1,266,666</u>

Projected GST turnover **\$ 500,000**

SOE's projected GST turnover is 60.5% (i.e., $(\$1,266,666 - \$500,000) / \$1,266,666$) lower than its current GST turnover. As this is at least 30%, SOE satisfies the decline in turnover test.

Turnover Test period – June 2020 quarter

Under the Alternative test, SOE compares its projected GST turnover for the June 2020 quarter with its current GST turnover calculated as its total average monthly turnover for the period 1 April 2019 to 31 March 2020.

Current GST turnover

Total Average monthly turnover for period:

1 April 2019 - 31 March 2020	\$1,266,666 (as calculated above)
	x 3
	<u>\$3,800,000</u>

Projected GST turnover **\$ 500,000** (turnover for April, May and June 2020).

SOE's projected GST turnover is 86.84% (i.e., $(\$3,800,000 - \$500,000) / \$3,800,000$) lower than its current GST turnover. As this is at least 30%, SOE satisfies the decline in turnover test.

4. Alternative decline in turnover test for businesses affected by drought or natural disaster

The problem for an entity affected by drought or natural disaster is that comparison periods in 2019 may have been reduced significantly making it difficult or impossible for it to satisfy the Basic decline in turnover test. To take this into account, the Turnover Rules contain an Alternative test to allow such entities to assess whether they satisfy the decline in turnover test and qualify for the JKS.

4.1 When can an entity apply this Alternative test?

Pursuant to S.10(1) of the Turnover Rules, an entity can apply the Alternative test if:

- (a) it conducted business or some of the business in a declared drought zone, or declared natural disaster zone, during the relevant 2019 comparison period; and

(b) the drought or natural disaster changed the entity's turnover.

4.2 What is the Alternative test?

Under the Alternative test, rather than comparing its projected GST turnover test with its current GST turnover from the relevant comparison period in 2019, the entity instead compares it with its *current GST turnover for the same period in year immediately before the declaration.*

For example, if the turnover test period is March 2020, the entity would normally make the comparison with March 2019. However, if, in March 2019, the area in which the entity carried on business was in a declared drought zone, it may be able to make the comparison with March 2018 (or an earlier year, depending on when the declaration commenced).

5. Alternative decline in turnover test where acquisition or disposal changed the entity's turnover

Where an entity acquired or disposed of part of its business since the relevant 2019 comparison periods, any comparison with those periods may not adequately show the true affect COVID-19 is currently having on the business. In recognition of this, the Turnover Rules contain an Alternative test to allow such entities to assess whether they satisfy the decline in turnover test and qualify for the JKS.

5.1 When can an entity apply this Alternative test?

Pursuant to S.7(1) of the Turnover Rules, an entity can apply the alternative test if:

- (a) there was an acquisition or disposal of part of their business after the relevant 2019 comparison period and before the turnover test period; and
- (b) the acquisition or disposal changed the entity's turnover.

5.2 What is the Alternative test?

If the turnover test period is a month (i.e., March or April 2020), then rather than comparing its projected GST turnover for that month with its current GST turnover for the relevant comparison period (i.e., March or April 2019), the entity compares it with its:

current GST turnover from the month immediately after the month in which the acquisition or disposal occurred.

For example, if the entity acquired part of its business in September 2019, it will compare its projected GST turnover for March 2020 with its current GST turnover for October 2019.

If the turnover test period is a quarter (i.e., the June 2020 quarter), then rather than comparing its projected GST turnover for that quarter with its current GST turnover for the relevant comparison period (i.e., the June 2019 quarter), the entity compares it with its:

current GST turnover from the month immediately after the month in which the acquisition or disposal occurred multiplied by three.

For example, if the entity acquired part of its business in June 2019, it will compare its projected GST turnover for the June 2020 quarter with three times the current GST turnover for July 2019.

5.3 Bushfire deferrals and Drought Help concessions

Where an entity qualified for the ATO's *Bushfires 2019-2020 lodgment and payment deferral* or received *Drought Help* concessions, then for the purposes of the calculations above, exclude any months covered by:

- (a) the *Bushfires 2019–2020 lodgment and payment deferrals*; or
- (b) the *Drought Help* concessions,

and use the nearest month before or after the acquisition or disposal as appropriate, unless the months covered by the concession are the only months available.

6. Alternative decline in turnover test where business restructure changed the entity's turnover

The ES to the Turnover Rules groups its explanation of this class of entities in with those that have disposed of or acquired part of their business. Neither the Turnover Rules nor the ES describe what a 'restructure' is for the purpose of this class of entities. It is imagined it would cover some of the types of transactions for which entities may qualify for CGT rollover relief such as demergers.

6.1 When can an entity apply this alternative test?

Pursuant to S.8(1) of the Turnover Rules, an entity can apply the alternative test if:

- (a) there was a restructure of their business, or part thereof, after the relevant 2019 comparison period and before the turnover test period; and
- (b) the restructure changed the entity's turnover.

6.2 What is the Alternative test?

The alternative test operates in the same way as described above at Heading 5.2, save that any reference to an acquisition or disposal is to be read as reference to the restructure.

6.3 Bushfire deferrals and Drought Help concessions

Refer to Heading 5.3 above. Any reference to an acquisition or disposal is to be read as reference to the restructure.

7. Alternative test for sole traders or small partnerships with sickness, injury or leave

The problem for this class of entity is that it relies on the principals to generate all the income. If one of those principals was sick, injured or on leave during the 2019 comparison periods, the turnover in those periods would not be representative. To overcome this, the Turnover Rules contain an Alternative test to allow such entities to assess whether they satisfy the decline in turnover test and qualify for the JKS.

7.1 When can an entity apply this Alternative test?

Pursuant to S.12(1) of the Turnover Rules, an entity can apply the alternative test if:

- (a) it is a sole trader or a 'small partnership' with no employees;

Alternative Decline in Turnover Tests

- (b) the sole trader or at least one of the partners did not work for all or part of the relevant 2019 comparison period due to sickness, injury or leave; and
- (c) the turnover of the sole trader or partnership was affected by the sole trader or partner not working for all or part of that period.

A 'small partnership' for this purpose is a partnership as defined in S.995-1(1) of the ITAA 1997 with **four or fewer individual partners**.

For example, a sole trader had an accident in March 2019 and was out of action (i.e., did not work at all) for eight weeks. This will mean the relevant 2019 comparison period may have a turnover of nil or close to it, making it nigh on impossible for the sole trader to pass the decline in turnover tests. However, because the sole trader did not work in this period due to injury and their turnover was affected by this, they are able to apply the Alternative test.

7.2 What is the Alternative test?

If turnover test period is a month (i.e., March or April 2020), then rather than comparing its projected GST turnover for that month with its current GST turnover for the relevant comparison period (i.e., March or April 2019), the entity compares it with its current GST turnover from the month immediately *after* the month in which the sole trader or partner returned to work.

For example, if the injured sole trader or partner returned to work in May 2019, it will compare its projected GST turnover for March or April 2020 with its current GST turnover for June 2019.

If the turnover test period is a quarter (i.e., the June 2020 quarter), then rather than comparing its projected GST turnover for that quarter with its current GST turnover for the relevant comparison period, i.e., June 2019 quarter), the entity compares it with its:

current GST turnover from the month immediately after the month in which the sole trader or partner returned to work multiplied by three.

For example, if the injured sole trader or partner returned to work in June 2019, it will compare its projected GST turnover for the June 2020 quarter with three times its current GST turnover for July 2019.

7.3 Bushfire deferrals and Drought Help concessions

Where an entity qualified for the ATO's *Bushfires 2019-2020 lodgment and payment deferral* or received *Drought Help* concessions in the month immediately after the month in which the sickness, injury or leave occurred, then for the purposes of the calculations above, use the month immediately after the last month covered by:

- (a) the *Bushfires 2019–2020 lodgment and payment deferrals*; or
- (b) the *Drought Help* concessions.