

FEDERAL BUDGET 2020-21

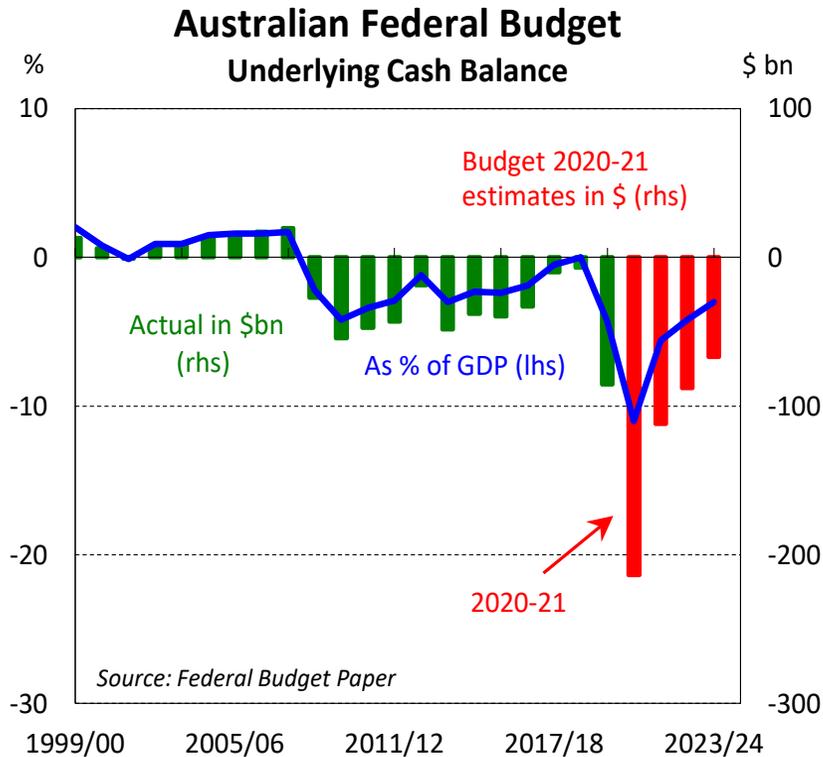
A FOCUS ON THE MEASURES FOR BUSINESSES

19 October, 2020

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TURNING THE FISCAL TAPS ON



- The forecast is for the Budget deficit to widen to a record \$213.7 billion in 2020-21.
- The Federal Budget aims to fill the hole in demand, ripped out by the COVID-19 pandemic by providing tax relief to businesses, tax cuts to households, and support for those employers hard hit by government-imposed restrictions.
- There is also extra spending for infrastructure spending, which has been an ongoing theme in recent years.
- There is an awareness within the Budget that businesses create jobs and creating more jobs is the best way to limit the scarring in the economy from the shock of this pandemic.
- The hope is the dial for consumers and businesses shifts away from saving to spending, helping to support the fragile economic recovery underway across most of Australia. If businesses and consumers remain cautious and refrain from spending, the full impact of these measures will not be felt.

LONG AND BUMPY RECOVERY ROAD

Key Budget Aggregates and Parameters

	Actual	Forecasts			
	2019-20	2020-21	2021-22	2022-23	2023-24
Budget Aggregates					
Underlying cash balance (\$bn)	-85.3	-213.7	-112.0	-87.9	-66.9
% of GDP	-4.3	-11.0	-5.6	-4.2	-3.0
Net debt (\$bn)	491.2	703.2	812.1	899.8	966.2
% of GDP	24.80	36.1	40.4	42.8	43.8
Major Economic Parameters					
Real GDP	-0.20	-1.50	4.75	2.75	3.00
Employment	-4.30	2.75	1.75	1.00	1.75
Unemployment rate	7.00	7.25	6.50	6.00	5.50
Consumer price index	-0.30	1.75	1.50	1.75	2.00
Wage price index	1.80	1.25	1.50	2.00	2.25
Nominal GDP	1.70	-1.75	3.25	4.50	5.00

Real GDP and nominal GDP are percentage change on preceding year. The consumer price index, employment and the wage price index are through the year growth to the June quarter. The unemployment rate is for the June quarter.

- Recovery is occurring across most parts of Australia except Victoria.
- The Federal Budget assumes a national recovery underway later this year with a key assumption being that a viable vaccine materialises before the end of 2021.
- The recovery is expected to be uneven.
- A stronger and more even recovery requires:
 - Viable, commercially-available vaccine
 - Reopening of (all) interstate and international borders
 - Resumption of immigration
 - Return to stronger population growth rates
 - Confidence
- The Federal Budget's forecasts for economic growth in 2020-21 are more optimistic than our own. The decline in population growth and the elevated uncertainty associated with the pandemic makes us more conservative.

PERSONAL INCOME TAX CUTS

Tax Cuts for Low- and Middle-Income Earners				
	Actual		2020-21	
Taxable Income (\$)	Tax Liability (\$)	Tax Liability (\$)	Change in Tax (\$)	Change in Tax (%)
40,000	4,947	3,887	-1,060	-21.4
60,000	12,147	9,987	-2,160	-17.8
80,000	19,147	16,987	-2,445	-11.3
100,000	26,632	24,187	-2,745	-9.2
120,000	34,432	31,687	-2,565	-8.0
140,000	42,232	39,667	-2,565	-6.1
160,000	50,032	47,467	-2,565	-5.1
180,000	57,832	55,267	-2,565	-4.4
200,000	67,232	64,667	-2,565	-3.8

- The main measures for households were the bringing forward and backdating of the Stage 2 personal income tax cuts to 1 July 2020.
- It includes raising the start of the 32.5% (from \$37.2k to \$45k) and 37% (from \$90k to \$120k) tax bracket thresholds.
- Personal income tax cuts should help bolster consumer spending - lifting demand for the goods and services produced by businesses. But without a vaccine available, caution among consumers may not sustainably disappear.
- In Q2, consumer caution led the household savings ratio to rise to nearly 20%, from 6% in Q1 of this year.
- The weekly consumer confidence survey published by Roy Morgan shows pessimism among consumers is waning. There has been an improvement for the past 6 weeks.

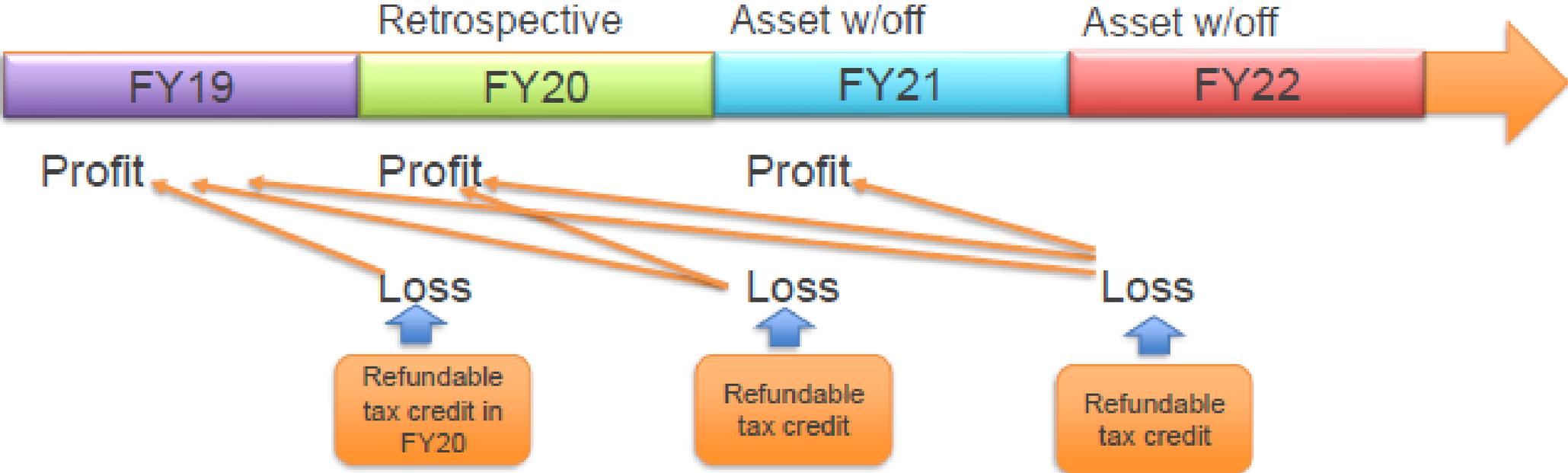
IMMEDIATE DEDUCTION FOR ASSETS

Turnover Threshold	New Depreciable Assets	2nd Hand Depreciable Assets	Existing Depreciable Assets
< \$10mn Business	Unrestricted where eligible for small business pool	Unrestricted where eligible for small business pool	Unrestricted where eligible for small business pool
\$10mn - \$50mn	Unrestricted from 6 Oct 2020 Instant asset write off threshold (IAWO) \$150k / 50% before	Unrestricted from 6 Oct 2020 IAWO \$150k before	No changes
\$50mn-\$500mn	Unrestricted from 6 Oct 2020 IAWO \$150k / 50% before	IAWO \$150k to 31 Dec 2020 (installed by 30 Jun 21)	No changes
< \$5bn	Unrestricted before 6 Oct 2020	No changes	No changes

Source: Bentleys, Federal Budget

- A key measure of the Budget is temporary full expensing. From 6 Oct 2020 to 30 Jun 2022, businesses with annual turnover < \$5bn will be able to write off the full cost of eligible depreciable assets of any value in the year they are installed.

LOSS CARRY-BACK PROVISIONS



Source: Bentleys, Federal Budget Papers

- Another key temporary measure was the loss carry-back provisions. This measure allows businesses to write-off of any losses incurred until June 2022 against profits made on or before 2018-19 (rather than on their subsequent profits as usually happens). It will help boost cashflow for businesses.

SUBSIDIES FOR RESEARCH & DEVELOPMENT

After July 2021:					
Aggregated Turnover	Current Tax Offset	R&D as % of Spend	Proposed 'Premium'	Proposed R & D Tax Offset	
				25% tax rate	30% tax rate
< \$20mn	Refundable 43.5%	N/A	18.5%	43.5%	48.5%
\$20mn or more	Non-refundable 38.5%	Initial 2%	8.5%	33.5%	38.5%
		Above 2%	16.5%	41.5%	46.5%

Source: Federal Budget, Bentleys

- The changes to R&D includes scrapping the proposed \$4 million cap on annual cash refunds. It also includes an increased tax incentive refund rate and a higher refund cap.

JOBMAKER HIRING CREDIT FOR EMPLOYERS, JOBTRAINER

	16-29 year olds	30-35 year olds
Weekly credit	\$200	\$100
Total credit per employee	\$10,400	\$5,200

Employer:

- * ABN
- * Tax lodgment up to date
- * Single Touch Payroll reporting
- * Adequate records
- * Payroll / headcount increase
- * Not on JobKeeper
- * Not government owned
- * Not bankrupt
- * Not a bank
- * Claim from ATO from 1 Feb 2021

Employee:

- * Employed after 6 Oct 2020 and before 6 Oct 2021
- * Receiving JobSeeker etc for 1+ out of 3 months before hire
- * Work at least 20 hours per week
- * First year of employment with this employer
- * Not on any other subsidy program

Source: Federal Budget, Bentleys

- Youth unemployment is significantly higher than the national unemployment rate with younger workers harder hit by the pandemic. JobMaker encourages businesses to hire young people through hiring credits.
- JobTrainer - a 50% wage subsidy available to businesses that employ new apprentices and trainees, expected to support 100k places. The package also provides an additional 340k training places on free or low-cost courses to boost skills.

SMALL BUSINESS TAX CONCESSIONS – CUTTING RED TAPE

- Access to small business tax concessions will be expanded by increasing the small business entity turnover threshold for these concessions from \$10 million to \$50 million. Businesses with an aggregated annual turnover of \$10 million or more but less than \$50 million will for the 1st time have access to up to 10 further small business tax concessions in 3 phases:
 - From 1 Jul 2020, eligible businesses will be able to immediately deduct certain start-up expenses and certain prepaid expenditure.
 - From 1 Apr 2021, eligible businesses will be exempt from the 47% fringe benefits tax on car parking and multiple work-related portable electronic devices (such as mobiles or laptops) provided to employees.
 - From 1 Jul 2021, eligible businesses will be able to access the simplified trading stock rules, remit pay as you go (PAYG) instalments based on GDP adjusted notional tax, and settle excise duty and excise-equivalent customs duty monthly on eligible goods under the small business entity concession. Eligible businesses will also have a 2-year amendment period apply to income tax assessments for income years starting from 1 Jul 2021, excluding entities that have significant international tax dealings or particularly complex affairs.
- From 1 Jul 2021, the Commissioner of Taxation's power to create a simplified accounting method determination for GST purposes will be expanded to apply to businesses below the \$50 million aggregated annual turnover threshold.
- These changes will simplify eligibility and reduce red tape, as more turnover thresholds will align to the aggregated annual turnover threshold for a base rate entity for company tax purposes. The eligibility turnover thresholds for other small business tax concessions will remain at their current levels.

FRINGE BENEFITS TAX CHANGES

- Reduced record keeping requirements. The Government will provide the Commissioner of Taxation with the power to allow employers to rely on existing corporate records, rather than employee declarations and other prescribed records, to finalise their fringe benefits tax (FBT) returns.
- The measure will have effect from the start of the first FBT year (1 April) after the date of Royal Assent of the enabling legislation.
- Currently, the FBT legislation prescribes the form that certain records must take and forces employers, and in some cases employees, to create additional records in order to comply with FBT obligations.
- The measure will allow employers — with what the Commissioner determines as adequate alternative records — to rely on existing corporate records, removing the need to complete additional records.
- This will reduce compliance costs for employers, while maintaining the integrity of the FBT system.

OTHER MEASURES FOR BUSINESSES

- Around \$52 million is earmarked for cyber-security and the digital capability program that will help small business.
- Victorian COVID-19 business support grants treated as non-assessable non-exempt (NANE) income.
- Legislated corporate residency test – align with Board of Tax recommendation.
- FBT exemption for skills training of redeployed employees from 2 October 2020.
- Various international tax measures.
- Your Future, Your Super.

AGRICULTURE

- The Government will provide an additional \$2.2 billion over five years from 2019-20 for a package of measures to support farmers and communities in drought. The package supports immediate action for those in drought, support for the wider communities affected by drought and support to build long-term drought resilience and preparedness.
- New funding includes:
 - \$2 billion of additional loan funding in 2020-21 for drought related loans.
 - \$75 million of additional loan funding in 2020-21 for AgriStarter loans.
 - \$50 million over 4 years for the Regional Investment Corporation to administer these additional loans.
 - \$12.8 million over 2 years to expand the Drought Communities Small Business Support Program to provide financial counselling services to rural and regional small businesses affected by drought, COVID-19 or the 2019-20 bushfires.
- \$269.6 million over four years from 2020-21 (and \$9.8 million per year ongoing) for a package of measures for the Murray-Darling Basin.
- \$328.4 million for a package of measures to improve the ease of doing business for agricultural exporters. This includes \$222.2 million for the first phase of modernising the ICT systems and business processes that support the improved delivery of export regulatory services to agricultural exporters.

DIGITAL

- \$796.5 million over four years from 2020-21 through its Digital Business Plan to further drive progress towards Australia becoming a leading digital economy by 2030. The measures cover the following pillars: modern digital infrastructure, reduced regulatory barriers, SME support and capability and a digital government that is easier to do business with.
- Measures to support modern digital infrastructure include funding to establish the Australian 5G Innovation Initiative to support private sector investment in 5G testbeds & trials and new investments in the NBN.
- Measures to reduce regulatory barriers include funding to deliver a Regtech Commercialisation Initiative to streamline Government administration and simplify regulatory compliance through the Business Research and Innovation Initiative. There is also funding to enhance support for Australian fintech start-ups to gain a foothold in international markets.
- Measures to support and build SME digital capability include funding to expand the Australian Small Business Advisory Services 'Digital Solutions program' to an additional 10,000 small businesses, funding to develop a Digital Readiness Assessment tool to help businesses self-assess their digital maturity and improve their digital literacy. There is also extra support for an industry-led Digital Skills Finder Platform to enable workers and SMEs to easily find digital skills training courses for reskilling and upskilling in digital literacy.
- Measures to enhance digital government (i.e. making it easier to do business with government) includes \$419.9 million to transfer existing business registers to a modernised platform to allow the creation of a single, accessible and trusted source of business data. Small businesses will be able to register for an ABN, ACN or licence in the one place. Also, \$256.6 million to expand Digital Identity - improving online access to government services.
- The more liberal R&D tax incentives & instant asset write-off schemes will also aid spur investment and software demand.

EDUCATION

- The tertiary education sector has been hard hit by the pandemic with the loss in international students.
- One of the main measures included \$903.5 million over 4 years to provide more places and support for people wanting to access higher education due to the impact of COVID-19, to establish new quality protections for the higher education system, and for the Job-ready Graduates reforms.
- Other measures included:
 - \$314.2 million in 2020-21 to support Victorian Early Childhood Education and Care services to remain viable as COVID-19 restrictions ease in the state. Support will be in addition to Child Care Subsidy payments.
 - \$263 million over 4 years to continue to improve the quality of the Vocational Education and Training (VET) system. Includes funding for an apprenticeships data management system.
 - \$146.3 million over 5 years for a package of initiatives to improve education outcomes of young Australians, particularly disadvantaged students and those most impacted by the COVID-19 pandemic.

HEALTH AND AGED CARE

- There was \$4.9 billion allocated to a range of healthcare initiatives designed to prevent, detect and treat COVID. This includes \$1.7 billion allocated to securing access to potential vaccines.
- The government will also spend \$1.1 billion in 2020-21 to support better access to healthcare services through the pandemic, including nearly \$712 million to extend the Medicare Benefits Schedule pathology items for COVID-19 testing.
- Telehealth and mental health services will receive an additional \$1.1 billion as part of the Government's COVID-19 Response Package.
- The Federal Budget provides \$6.5 million in 2020-21 to support mental health and wellbeing of small businesses adversely impacted by COVID-18. It includes a \$4.3 million spend to expand current mental health programs for small business owners with access to free one-on-one telehealth sessions.
- The government will also spend \$2.0 billion over four years to support older Australians, which includes \$1.6 billion to creating an additional 23k home care package spaces and greater funding to lift transparency and regulatory standards in the aged care sector. The extra packages will mainly help people already on waitlists.
- The final report of the Royal Commission into Aged Care Quality and Safety is due early next year.

HOUSING AND CONSTRUCTION

- An extension of the First Home Loan Deposit Scheme by providing an additional 10k places to first-home buyers to buy a new home sooner. This will allow first home buyers to secure a loan to build a new home or purchase a newly built home with a deposit of as little as 5%, with the Government guaranteeing up to 15% of a loan.
- The HomeBuilder \$25k grants are still set to phase out in December 2020.
- The tax cuts in conjunction with ongoing low interest rates will also help support home affordability and help support activity in the housing market.
- Demand for housing will be capped by a drop in immigration – the Federal Budget forecasts a drop of 72k in 2020-21 and population growth to slow to just 0.2% - the slowest in over 100 years.
- Changes to responsible lending laws in the Federal Budget could also help enhance borrowing capacity of borrowers in the property market.

INFRASTRUCTURE

- The Federal government will devote \$5.7 billion in new spending on transport infrastructure projects over 10 years, which will provide opportunities for the private sector.
- The additional spending for infrastructure includes \$2.5 billion for major projects across states and territories and a \$2 billion investment in road safety upgrades (or 'shovel-ready' projects). These are funded on a 'use it or lose it' basis.
- There is also an additional \$1 billion for the Local Roads and Community Infrastructure program.
- There has also been an allocation of \$4.6 billion to improve the speed of the National Broadband Network (NBN), but only if there is demand from homeowners.

MANUFACTURING

- The main measure is the \$1.3 billion over 5 years to establish the Modern Manufacturing Initiative.
- The government is seeking to co-invest in areas that improve collaboration between businesses, researchers and investors, support the commercialisation of products, and help local manufacturers connect to global value chains.
- Six industries are targeted in this initiative:
 - Food & beverages
 - Space
 - Defence
 - Agriculture
 - Recycling and clean energy
 - Medical products
- Other measures include \$107.2 million over 4 years to identify and address critical supply chain vulnerabilities by providing manufacturers support through the new Supply Chain Resilience Initiative and \$52.8 million over 3 years for a 2nd round of the Manufacturing Modernisation Fund. This Fund co-funds capital investments that help manufacturers scale-up, invest in new technologies, create and maintain jobs, and upskill their workers.

RETAIL

- The stimulatory measures in the Budget, especially the bring forward of the Stage 2 personal income tax cuts should help boost spending in the economy.
- It critically depends on how much of the extra dollars will be spent and not saved.
- While the back-dated tax cuts will put more money in consumers' pockets and boost consumer confidence, the ongoing uncertainty caused by the pandemic might also prompt many people to save the windfall, rather than spend it.
- Consumer confidence is still fragile, so it would be reasonable to assume that some of the money will be saved.
- Since the pandemic began, we have seen elevated demand for groceries and non-durable household items, as well as household furnishings and equipment, which was supported by the COVID-19 stimulus package. The tax cuts (up to \$2,745 of personal income relief per tax payer) will continue to support groceries spending and likely boost purchases of home office equipment, especially electronic retailing and homewares with work-from-home remaining the norm for the foreseeable future for many people.
- The cuts could also promote a temporary surge in recreational and entertainment spending as more venues and restaurants open back up as restrictions are eased and people start heading out again.

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