

FEDERAL BUDGET UPDATE 2020-21

Release Date 7 October 2020



INTRODUCTION

Originally scheduled for release on 12 May 2020, the delayed Federal Budget was released at 7:30pm on 6 October 2020, the delay having resulted from Australia's, and indeed the rest of the world's health and economic attention being diverted to managing the Coronavirus pandemic, or COVID-19.

This year has been unprecedented with the Government committing tremendous resources and financial support to its response to the pandemic. It is only to be expected that the Government's response would result in a significant impact on the economy and the state of the nation's finances.

This year's Budget is all about stimulus – kick starting the economy, getting people back to work, and encouraging Australians to spend money. And, at the same time, providing support where it is needed.

THE ECONOMY AND FISCAL OUTLOOK

The consequences of the economic downturn associated with COVID-19 has been devastating on the lives and employment prospects of individuals, and businesses throughout Australia. Very few have been immune from its impact in one way or another.

And, for the first time in almost 30 years, Australia has entered into a recession.

Some of the key statistics coming from the Budget include:

- The underlying deficit for 2020-21 is forecast to be \$213.7b
- This is expected to fall to \$66.9b by 2023-24
- Gross debt is projected to be 44.8% of GDP by the end of 2020-21 (\$872b)
- Then unemployment rate is estimated to peak at around 7.25%, returning to 5.5% by 2023-24
- The Consumer Price Index is expected to retain under 2% per annum until mid-2022.

INFRASTRUCTURE

Transport infrastructure around Australia is one of the big winners from this year's Budget.

Whether it is building an inner-city bypass in Newcastle, constructing overtaking lanes on the Princes Highway in South Australia, or upgrading the Shepparton and Warrnambool rail lines, expect to see constructions crews out and about for some considerable time to come.

The Government has allocated new investment of \$7.5b in national transport infrastructure designed to not only deliver safer roads and improved transport infrastructure, but to create thousands of new jobs as part of the government's economic recovery plan.

EMPLOYMENT

Apprentices and trainees

The existing \$2.8b apprentice and trainees wage subsidy will be extended from 5 October 2020 with an additional investment of \$1.2b to enable businesses to employ an additional 100,000 apprentices or trainees. This investment will subsidise 50% of the wages paid by employers, to a maximum of \$7,000 per quarter. The subsidy will apply to new apprentices and trainees engaged from 30 September 2020, up until the 100,000 cap is reached.

Fringe benefits tax exemption

Under present arrangements, FBT is payable when an employer provides training to employees that is not sufficiently connected with the employee's current employment.

The Government plans to exempt employer-provided retraining and reskilling from FBT for redundant or soon-to-be redundant employees who are redeployed into different roles.

JobMaker Hiring Credit

The \$4b JobMaker Hiring Credit will be payable for up to 12 months for each new job and is available from 7 October 2020. It is available to employers that employ eligible employees aged 16 to 35.

The Credit is paid to employers quarterly at a rate of \$200 per week for employees aged 16 to 29, and \$100 per week for those aged between 30 and 35. To be eligible, an employee is required to work at least 20 hours each week. Employers will have to demonstrate an increase in their overall employee headcount and payroll to be eligible.

This scheme is estimated to have the potential to support 450,000 young people in work.

TAXATION

Tax cuts

In its 2019 Budget, the Government announced a range of tax cuts that would take effect in later years. As part of its commitment to responding to the coronavirus, the Government has announced plans to bring forward tax cuts planned for 1 July 2022, backdating them to 1 July 2020.

The changes, expected to inject \$12b into take-home pay include:

- Increasing the upper threshold for the 19% tax rate from \$37,000 to \$45,000
- Increasing the threshold for the 32.5% tax bracket from \$90,000 to \$120,000
- The Low Income Tax Offset (LITO) is to increase from \$445 to \$700

The tax cuts will result in an immediate tax savings across a wide range of incomes. The figures in the following table also reflect access to the Low Income Tax Offset and the Low to Middle Income Tax Offset, where applicable. The Medicare Levy has been included.

Taxable income	Tax payable 2020-21	Tax saving (over 2017-18)
\$40,000	\$3,887	\$1,060
\$60,000	\$9,987	\$2,160
\$80,000	\$16,987	\$2,160
\$100,000	\$24,187	\$2,445
\$140,000	\$39,667	\$2,565
\$180,000	\$55,267	\$2,565
\$200,000	\$64,667	\$2,565

Source: Lower Taxes Fact Sheet https://budget.gov.au/2020-21/content/factsheets/download/tax_fact-sheet.pdf

Capital gains tax – granny flats

From 1 July 2021 the Government plans to exempt granny flats from capital gains tax.

Under the measure, capital gains tax will not apply to the creation, variation, or termination of a formal granny flat arrangement that provides accommodation to older Australians or people with disabilities. This concession will only apply to arrangements entered because of family relationship or other personal ties and will not be available to broader commercial rental arrangements.

Small business tax concessions

Further tax relief and a reduction in red tape is to be offered to businesses with an aggregated annual turnover of between \$10b and \$50b. These businesses will have access to several the tax concessions available to small businesses.

The expanded concessions will be applied in three phases from 1 July 2020, 1 April 2021, and from 1 July 2021.

From 1 July 2020, eligible businesses will be able to immediately deduct certain start-up and prepaid expenses

In April next year eligible businesses will be exempt from fringe benefits tax on car parking and multiple work-related portable electronic devices (phones, laptop etc.) provided to employees.

Simplified trading stock rules and remittance of PAYG instalments will apply to eligible businesses and a simplified accounting method of GST will be expanded from 1 July 2021.

Offsetting tax losses

Businesses with a turnover of up to \$5b will be able to offset losses against profits on which tax has been paid and generate a tax refund. It is estimated that the loss carry-back will be available to around 1 million companies. Losses incurred in 2020-21 can be carried back against profits made in 2018-19 and 2019-20.

HOMEBUYERS

The Government's First Home Loan Deposit Scheme assists people looking to build or purchase a newly built first home with as little as a 5% deposit. The Government, through the National Housing Finance and Investment Corporation provides participating lenders with a guarantee of up to 15% of the value of the property purchased.

From 6 October 2020, the scheme is to be extended to a further 10,000 first home buyers. The scheme may be used in conjunction with other state and territory grants and concessions available to first home buyers. This extension is in addition to the 20,000 first home buyers that have already benefited from the Scheme. For further information see www.nhfc.gov.au

SUPERANNUATION MEASURES

The Government has announced reforms to the superannuation system, particularly for members of MySuper accounts. Superannuation funds will be required meet an annual objective performance test. Where a fund underperforms for two consecutive years, they will be unable to accept new members until they can demonstrate they no longer under perform. This will also extend to non-MySuper account where the trustees of the fund determine the member outcomes (i.e. make the investment decisions).

Measures will also be introduced to reduce the number of superannuation funds a person may have, particularly when changing jobs. New superannuation fund members will be able to select a superannuation fund from a table of MySuper products through a YourSuper portal to be developed by the Australian Taxation Office.

HEALTH

A range of measures have been announced designed to ensure Australians continue to get access to the health care and support they need to weather the pandemic. Included in the Budget are funds to support the Government's commitment to ensuring the supply and production agreements for access to a safe and effective COVID-19 vaccine once available.

SOCIAL SECURITY AND AGED CARE MEASURES

Social security

The Budget includes an announcement of the payment of two additional one-off payments of \$250 each to eligible recipients of the Age Pension, Disability Support Pension, Carers Payment, Family Tax Benefit, Carers Allowance, Pensioner Health Card, Commonwealth Seniors Health Card and eligible Veterans Affairs payment recipients and concession card holders. The first payment will be made in November 2020 and the second in early 2021.

Aged care

\$2b is to be made available to support older Australians accessing aged care services including the creation of an additional 23,000 home care packages.

Additional funds have also been allocated to assist residential aged care providers with the costs of operating during the pandemic.

CONCLUSION

This year's Budget provides strong economic support to assist the businesses and the economy get on the road to recovery after what has been described as a one-in-one-hundred-year event. When we started the new year back in January nobody could have imagined just what the year would have in store.

There are numerous stories of individual hardship. However, we are so fortunate to be living in a country like Australia where we have managed to avoid many of the tragedies that have beset and continue to affect so many other countries.

Naturally, the necessary legislation will need to be passed through the Parliament for the Budget measures to be implemented.

The Budget may not have delivered all the things we would like to have seen included but in all, given the circumstances, the Government has delivered a Budget we can certainly live with.

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