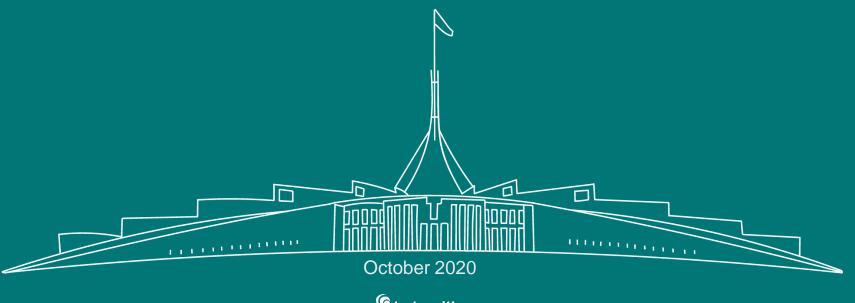


# 2020-21 Federal Budget





# Important information

#### Pitcher Partners



This Presentation has been prepared by us in the ordinary course of our profession. In providing this Presentation, we are not purporting to act as solicitors or provide legal advice. Appropriate advice should be sought prior to acting on anything contained in this Presentation or implementing any transaction or arrangement that may be referred to in this Presentation.

Information contained within this Presentation is based on the relevant law and its interpretations by relevant authorities as it stands at the time the information is provided. Any changes or modifications to the law and/or its interpretation after this time could affect the information we have provided.

This Presentation, or any part thereof, must not be distributed, copied, used, or relied on by any person, without our prior written consent.

To the maximum extent permitted by law, Pitcher Partners will not be liable for any loss, damage, liability or claim whatsoever suffered or incurred by an person arising directly or indirectly out of the use or reliance on the information contained within this Presentation.

Pitcher Partners is an independent member of Baker Tilly International. Baker Tilly International Limited is an English company. Baker Tilly International provides no professional services to clients. Each member firm is a separate and independent legal entity, and each describes itself as such. Pitcher Partners is not Baker Tilly International's agent and does not have the authority to bind Baker Tilly International or act on Baker Tilly's behalf. None of Baker Tilly International, Pitcher Partners, not any of the other member firms of Baker Tilly International have any liability for each other's acts or omissions. The name Baker Tilly and its associated logo is used under license from Baker Tilly International Limited.

Pitcher Partners is an association of independent firms.

Any trademarks, logos, and service marks contained herein may be the registered and unregistered trademarks of their respective owners. Nothing contained herein should be construed as granting by implication, or otherwise, any license or right to use any trademark displayed without the written permission of the owner.

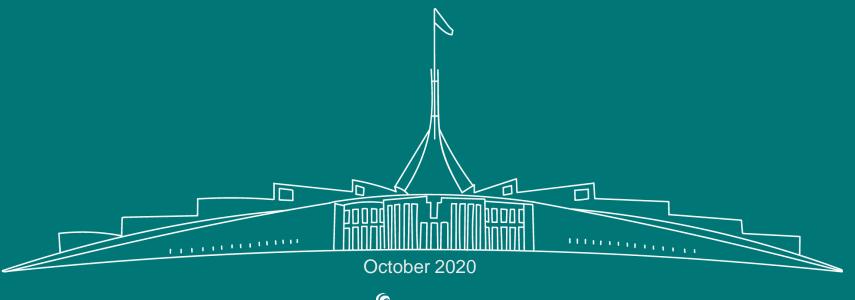
Liability limited by a scheme approved under Professional Standards Legislation.







# Tax perspective





Denise Honey
Tax Advisory Partner
Pitcher Partners







# How the world has changed

#### **FRON**

Continued economic growth, focus on engagement with Asia, growth in migration, tourism, education, health, mining and housing.

#### TO

**Covid-19** – best single stimulus is good health.

#### What we are covering today



**Overview** 



COVID-19 measures



Individuals



**Business** 





# This Budget is all about jobs

2020-21 Federal Budget Speech // Treasurer // 6 October 2020





59.8%

of our clients believe unemployment will be economy's biggest challenge

Pitcher Partners' Pre-budget submission 2020-21



## Proposed measures

## 2020-21 Federal Budget

Bring forward personal incon	ne tax cuts	✓	
Temporarily suspend or significantly reduce HELP loan repayments			
- urther corporate tax rate cu	ts for base rate entities	X	
Reducing employment on-co	sts	X	



#### Proposed measures

#### 2020-21 Federal Budget

# Short-to-medium term Measures to stimulate growth of gross domestic product Extend general capital allowance incentives on a longer-term or permanent basis Introduce targeted capital allowance measures for specific industries (e.g. agriculture, import replacement, education and construction)



## Proposed measures

## 2020-21 Federal Budget

Measures to improve the sustainability of our tax system			
Reform of the GST			X
Land tax and stamp duty reform	m in conjunction with changing	the rate of GST	X
Review the CGT framework e.	g. rate of concessions and ava	ilability of exemptions	X
Introduce a universal investme over a 5-year period to simplify	•	reciation claims	X



# COVID-19 measures



Job creation

JobMaker hiring credit – \$4b payable to employers who hire someone on JobSeeker

**JobTrainer Fund** – An additional \$1.2b to create 100,000 new apprenticeships with a 50% wage subsidy for new apprenticeships

This is in addition to \$3.8b already spent on JobTrainer measures



Supporting housing construction

Extension of **First Home Loan Deposit Scheme** (10,000 places)

Increase guarantee of the National Housing Finance and Investment Corporation by \$1b — enabling increased bond issuance into the wholesale capital market

No new announcement or extensions to JobKeeper



# **COVID-19 measures**



\$6.7b

State and Territories for infrastructure investment



\$2.0b

Road safety and upgrades



\$1.0b

Local roads and community infrastructure



\$1.3b

Modern
Manufacturing Plan
to target six national
manufacturing
priorities



# Individuals



# Personal Income Tax Plan

- Second stage of its Personal Income Tax Plan brought forward by two years to 1 July 2020
- Expected to cost \$17.8b
- Those earning \$40,000 pay 21% less tax
- Those earning \$80,000 pay 11% less tax
- Stage three of the plan commences in 2024-25



# Low to Medium Income Tax Offset

- Extended for a further
   12 months
- Those earning between \$48,000 and \$90,000 get maximum tax offset of \$1,080



- CGT exemption for granny flats
- Only available for personal and family arrangements (not commercial arrangements)



# *Individuals*

# Proposed rates and thresholds

Rate <sup>1</sup>	2018-19 to 2019-20	2020-21 to 2023-24	2024-25 onwards
Nil	\$0 – \$18,200	\$0 – \$18,200	\$0 - \$18,200
19%	\$18,201 – \$37,000	\$18,201 <b>– \$45,000</b>	\$18,201 - \$45,000
30%	N/A	N/A	\$45,001 - \$200,000
32.5%	\$37,001 <b>–</b> \$90,000	\$45,001 <b>–</b> \$120,000	Removed
37%	\$90,001 - \$180,000	\$120,001 - \$180,000	Removed
45%	\$180,001 and over	\$180,001 and over	\$200,001 and over
Low and middle income tax offset	Up to \$1,080	Up to \$1,080*	-
Low income tax offset	Up to \$445	Up to \$700	Up to \$700

<sup>1.</sup> Note that these rates exclude the Medicare Levy



<sup>\*</sup> The LMITO has only been extended for 2020-21



Treasury estimates that these two measures will create around 50,000 jobs by the end of 2021-22, and boost GDP by around \$2.5 billion in 2020-21 and \$10 billion in 2021-22.

**Budget 2020-21 Economic Recovery Plan for Australia** 



# **Business**

# Eligible businesses (including trusts) - Instant asset write-off for depreciating assets and improvements to eligible assets

Turnover	Type of asset?	First used or installed?
< \$10m	Balance of simplified depreciation pool at year end	
< \$50m	New or second-hand	30 June 2022
\$50m – \$5b	New*	30 June 2022



<sup>\*</sup>Businesses with aggregated annual turnover between \$50m and \$500m can still deduct the full cost of eligible second-hand assets costing less than \$150,000 that are purchased by **31 December 2020** under the enhanced instant asset write-off. Businesses that hold assets eligible for the enhanced \$150,000 instant asset write-off will have an extra six months, until **30 June 2021**, to first use or install those assets

# **Business**

# Refundable loss carry-back



Who's eligible?	Corporate tax entities < \$5b turnover
Which losses?	2019-20, 2020-21 or 2012-22 income years
Carry back years	Previously taxed profits in 2018-19 or later income years
Other requirements	Carry-back can't create a franking account deficit
Is it optional?	Yes



# Combination of asset write-off and loss carry-back



\$1m

Eligible expenditure post budget night

\$1m

Taxable loss



> \$1m

Taxable income 30% tax rate

> \$300k

Available franking credits

\$300,000 tax refund upon lodging FY21 tax return



#### Corporate Tax Residency

'Clarifying' corporate residency test

'Significant economic connection' to Australia

Intended to reflect position prior to Bywater decision

**Date of effect** – First income year after the date of royal assent

#### Opt in

Taxpayers can opt to apply new law from **15 March 2017** (date of application of ATO's change in view)



# **Business**

#### International



Update to exchange of information jurisdictions

Reduces MIT withholding from 30 to 15%

**New jurisdictions** – Dominican Republic, Ecuador, El Salvador, Hong Kong, Jamaica, Kuwait, Morocco, North Macedonia and Serbia

Jurisdictions removed - Kenya

Austrac funding extended	Export initiatives		
\$15.1m to the ATO	Some small targeted initiatives		
Estimated to raise \$136.8m	to support exporters		



## R&D tax incentive



Measures before Parliament partially reversed, with enhanced benefits available Start date deferred: Now income years starting on or after 1 July 2021

Turnover < \$20m	Turnover > \$20m		
Refundable R&D tax offset set at 18.5% above	Concept of 'R&D intensity' retained		
the company's tax rate	Number of tiers will reduce from three to two		
\$4m cap on refunds will not proceed	Non-refundable R&D tax offset will be the company's tax rate plus		
	8.5% points where R&D intensity between 0 and 2%		
	16.5% points where R&D intensity above 2%		

Increase of R&D expenditure cap from \$100m to \$150m will remain unchanged



# **Business**

#### Other

**FBT** 



Exemption to support retraining and reskilling

**Simplified record keeping** – Granting the Commissioner power to allow employers to rely on existing corporate records

Small Business Entity



Turnover threshold increased from \$10m to \$50m

**FBT exemption** on car parking (not commercial car parks) and multiple work related portable electronic devices

No impact on small business CGT concessions

Victorian Grants



Non-assessable non-exempt income

Arrangements to be extended to States and Territories on an application basis



# Key takeaways



#### **Everyone**

- COVID-19 recovery
- Investment in jobs and training
- Investment in infrastructure



#### Individuals

- Personal tax cuts brought forward two years
- Most significant tax cuts are not scheduled until 2024-25



#### **Business**

- Immediate asset write-off
- Loss carry-back
- FBT concessions for small business entities



#### International

 Corporate residency test 'clarified'



# Making business personal



in pitcher.com.au





# **Australian Budget & Economic Overview**

- Budget a massive stimulus as expected
- Tax Cuts brought forward and backdated
- Infrastructure accelerated, special help to sectors
- Incentives to invest and employ
- But recovery still a hard slog

#### Overall reaction: - A massive stimulus as expected.

- This Budget as advertised is a massive stimulus package adding as much as 7% of GDP in stimulus (structural stimulus impulse).
- Main features are as expected including bringing forward and backdating Phase 2 tax cuts.
   The backdating to July 2020 very important as JobKeeper phases down. And unexpectedly generous instant asset write offs for investment (firms under \$5bn turnover).
- Lots aiming to get the economy going including bringing forward infrastructure. New money for Hospitals and manufacturing. And incentives to employ more (wage subsidies for previously unemployed under 35 years old and apprentices). Loss carried back provisions for SMEs.
- No problems re the thrust of the stimulus. Budget has seen us add to our expected growth momentum in H2 2202 and during mid 2021.
- But core forecasts for the economy in 2021/22 seem very optimistic. As does the speed of budget return at the same time. A drop of support of around \$100bn.
- But huge damage done by the virus lockdowns and unemployment stays high for a long time.
   We are more pessimistic here too (in the medium term).



# Key Measures – Tax Cuts, Infrastructure, Asset Write offs, Other income support and Job boosts.

- On tax: A key decision has been to backdate the Phase 2 tax cuts (worth \$17.8bn over four years). The back dating of Phase 2 cuts is important as it helps fill the gap to consumers' incomes from the reduction of JobKeeper and JobSeeker payments. Phase 3 not brought forward (Opposition opposes it);
  - There was also a carry back tax provision (of around \$4.8bn over 4 years ).
- On Asset Write offs: the biggest item in the Budget was the Instant asset write off for firms with turnover of less than \$5bn worth \$26.7bn over 4 years. Very much aimed at encouraging business investment.
- On employment incentives: Further in keeping with the tone of moving from "support to survival" extra money has been given by way of pay incentives to new employees under 35 years old who were previously unemployed (\$4bn over 4 years). Involves payments of \$200 per week for a year.
  - Also wage subsidies for new apprentices were announced (\$1.2bn)

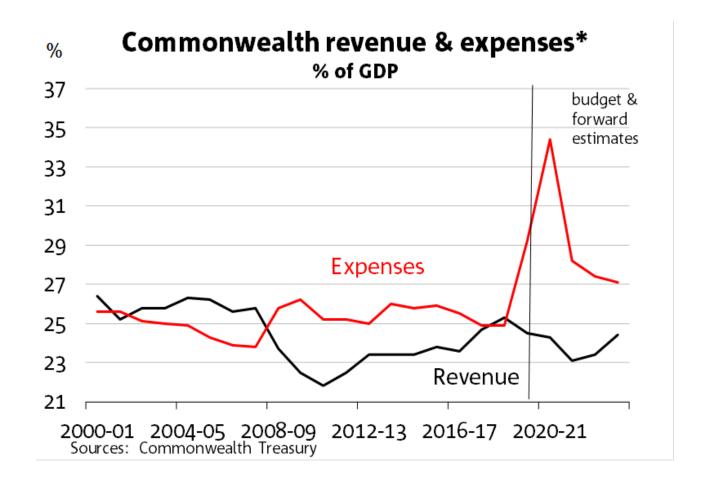


#### Key Measures – Continued...

- **Infrastructure:** Bringing forward infrastructure spending by providing extra money to the States (\$6.7bn over 4 years) with Commonwealth road infrastructure of \$2bn).
- **Extra help for industry:** There was with extra money for manufacturing support (\$1.5bn) and higher education (\$0.9bn).
- Other Areas to Receive support:
  - Aviation;
  - Research;
  - New energy research.
- Not there:
  - No changes to phasing out and payments to JobSeeker and JobKeeper;
  - Public Housing to help Construction.



On Underlying Cash Balance – very much driven by Expenses. Revenues not a lot changed.

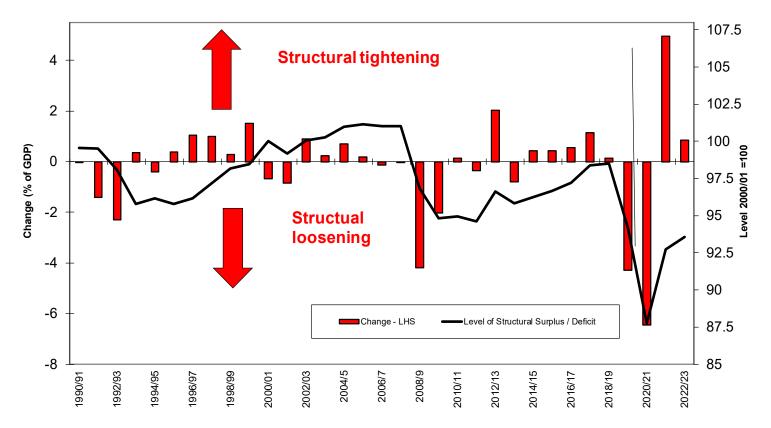




#### What is the Budget doing to the Economy?

Basically unprecedented this year, but lots of questions about 2021/22.
 And Structural deficit still over 6% by 2022/23.

Structural Impulses from Budget
- Annual Movement % of GDP and Implied Balance (2000/01 =100)





Global economic forecasts. - NAB and Treasury broadly similar. We are more optimistic this year (Europe), with a higher bounce back next.

Comparison of Treasury Budget Forecasts and NAB Forecasts						
	2020		20	21	2022	
	Treasury	NAB	Treasury	NAB	Treasury	NAB
US	<b>-</b> 5.5	-4.1	2.3	3.4	3.0	2.7
Euro-zone	-9.0	<b>-</b> 6.9	3.5	5.7	3.0	2.3
Japan	<b>-</b> 5.8	<b>-</b> 5.7	2.5	2.7	1.8	1.4
China	1.8	1.5	8.0	9.5	5.3	5.8
India	<b>-</b> 9.0	-8.8	9.0	13.3	4.8	6.0
Other East Asia	-3.8	-3.5	4.0	5.3	3.5	5.1
World	-4.5	-4.1	5.0	6.3	3.5	3.9
Major trading partners	-3.0	<b>-</b> 2.5	5.8	6.8	3.8	4.5



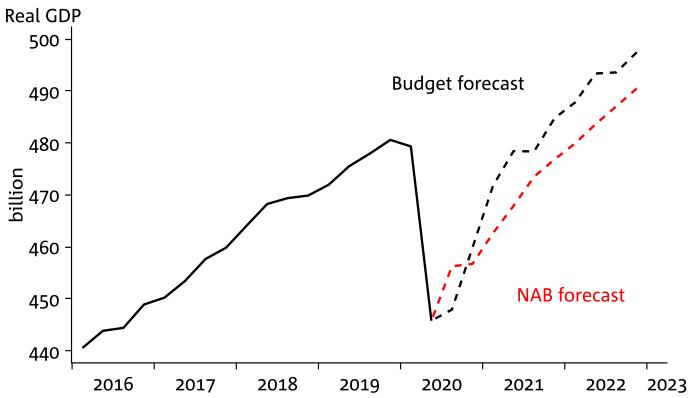
#### Australian Forecasts – Differences.

- Fundamentally we're much more worried about the outlook than the forecasts published by the Treasury.
- We see GDP falling by around -2% in 2020/21 (while the Treasury is at -1.5%).
   For 2021/22 we have around 3.8% but the Treasury has 4.7%.
- While we both see unemployment peaking at around 8% (Treasury in December 2020, NAB March 2021), the Treasury has unemployment falling to around 6½% in 21/22 while NAB is nearer 7%. We both have unemployment of around 6% in 22/23.
- Much of the difference relates to private consumption, but more broadly based.
- Elsewhere we are similar, for wages and prices.
- Inflation not an issue. RBA can't really do much more of substance will probably cut to 10 points but cost of debt not the issue Demand more important.



### NAB v Treasury Forecasts – Key differences Real economy outlook

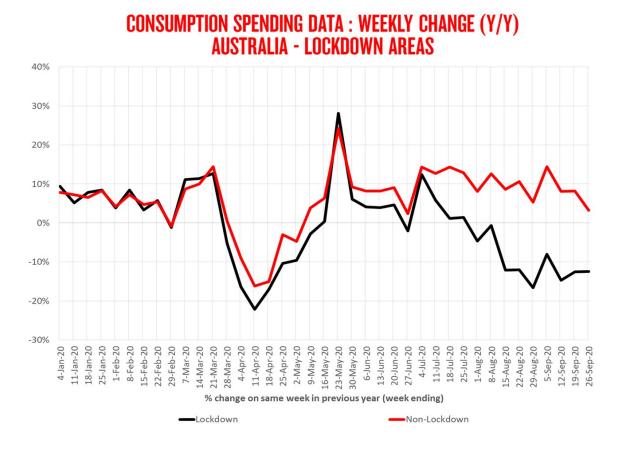
# **GDP FORECASTS**



Source: National Australia Bank, Australian Bureau of Statistics, Treasury

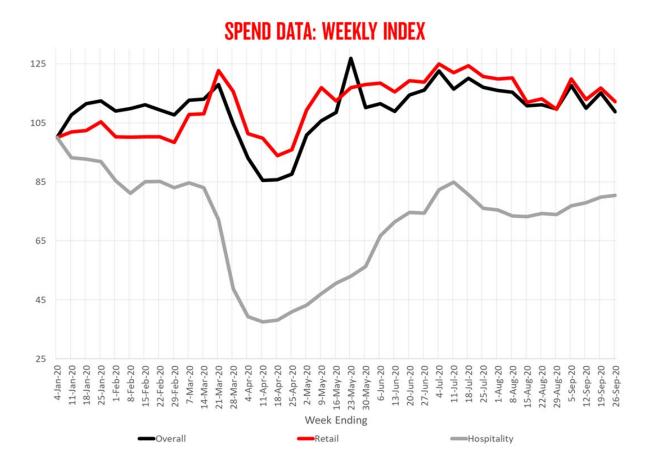


Data to week ending 26 September. - Suggests lockdown areas have seen sales down around 12% on this time last year. Rest of Australia (not in lockdown) slowing, but still above the same period last year.





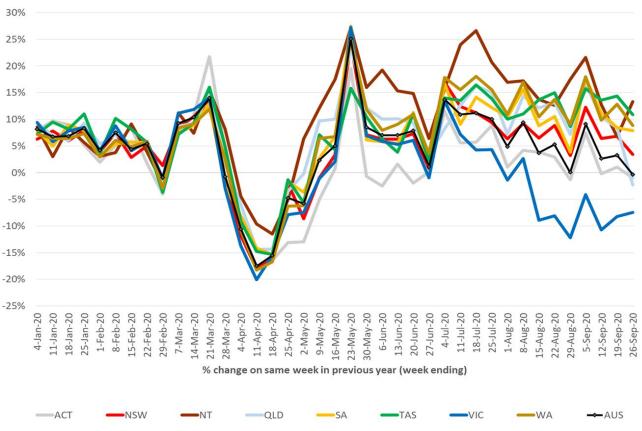
Recent trends on consumption. – Retail starting to slow but above the start of the year. Hospitality still struggling. Overall back to levels of early May.





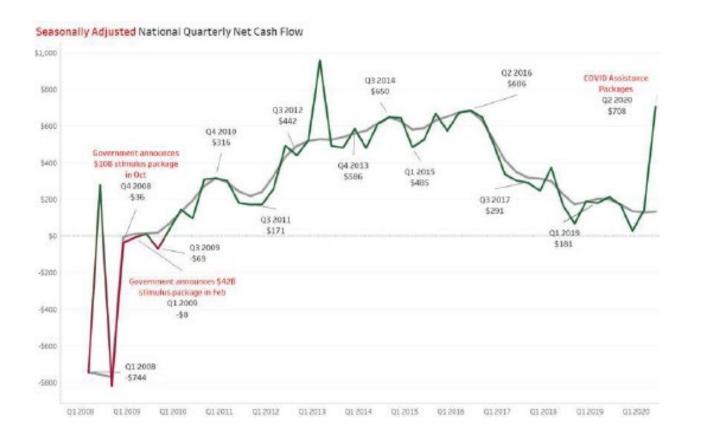
Most states slowing into mid September. – Victoria now down 10% but not as bad as at the bottom of the first virus outbreak. Generally things flattening out.







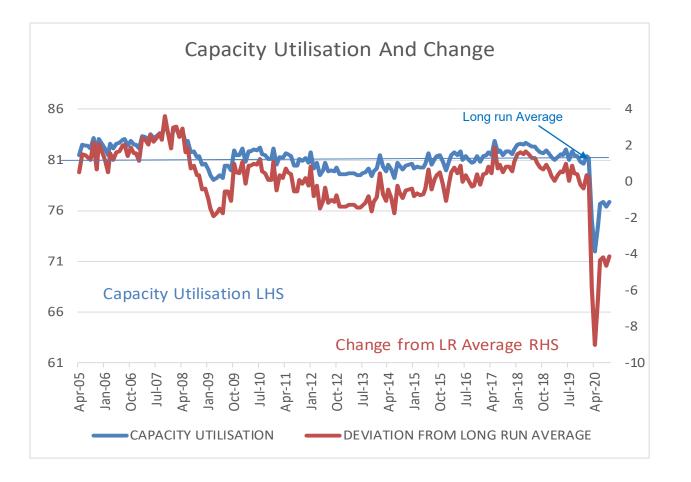
So where is the consumers' balance sheet? - Basically strong, driven by Government handouts and early super withdrawals. But can it continue as size of support starts to lessen? And unemployment rises. Tax cuts help.





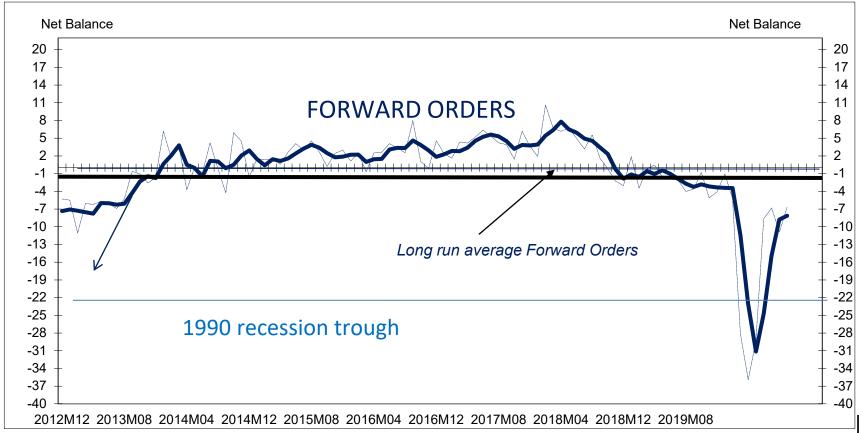
### Capacity utilisation had risen from massive falls earlier in the year.

- But levels still important. Still down 4% or so from early this year.



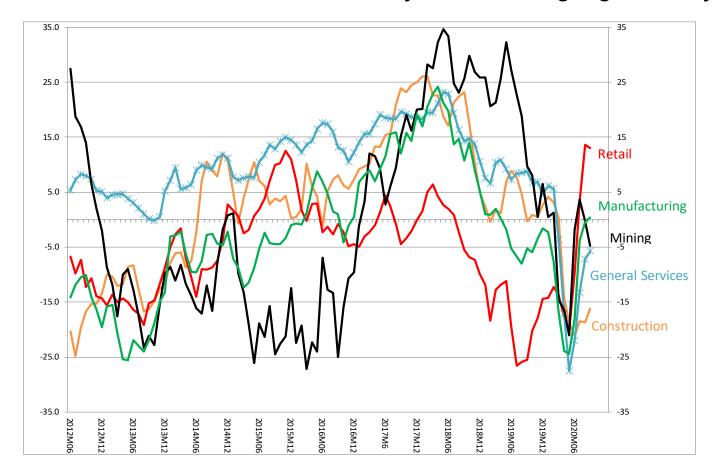


# Forward orders also massively hit. Had improved, but in last few months broadly going sideways. - A bit better in September but...



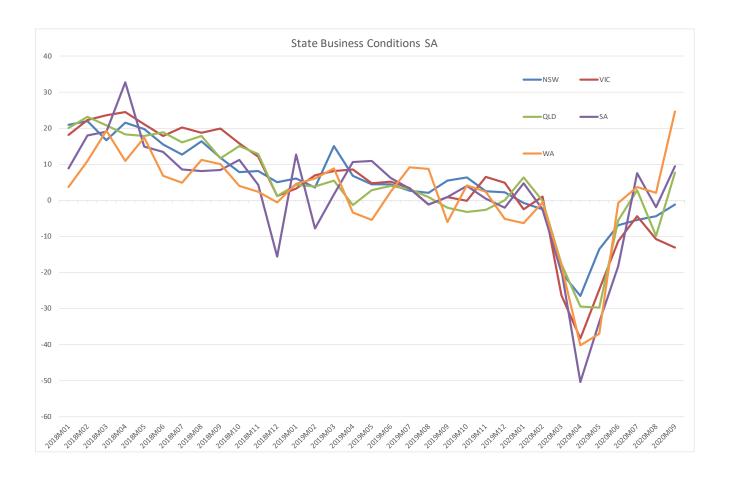


And industries affected as you would expect. General services weak but getting better recently. - Interestingly construction didn't really improve so much – not COVID-19 related is the worry. Retail doing significantly better.



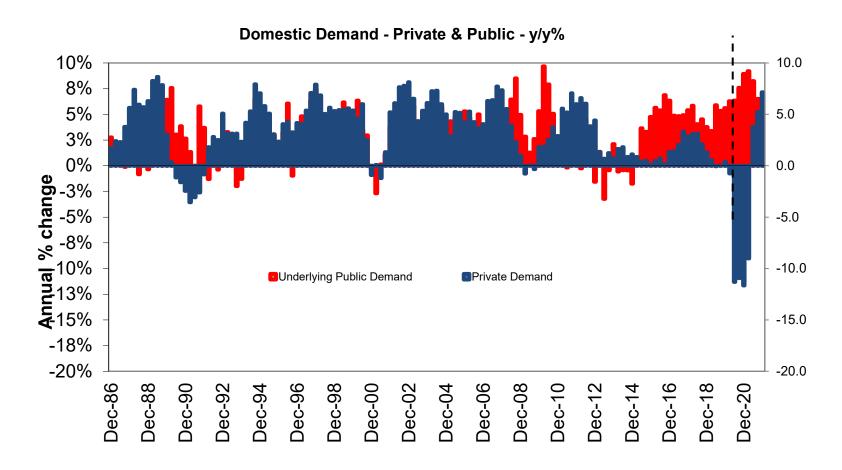


# Recent turning points - very obvious across states...





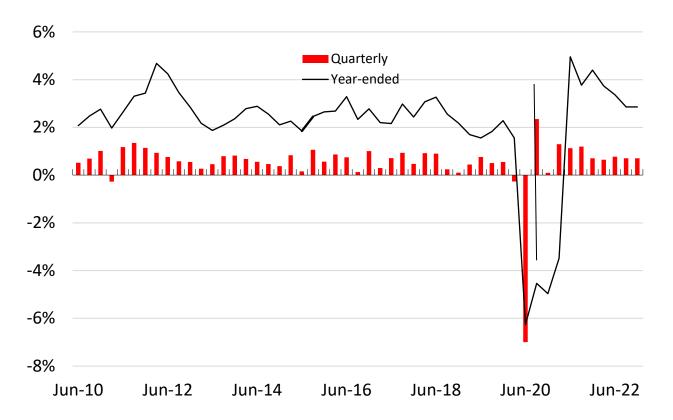
#### The hit to private demand - has been massive.





#### Our Growth Expectations. Massive impact as containment measures bite.

– But serious recession occurred (March/April). We were recovering faster than expected, but then came Victoria and stage 4. Other states helped offset but Q4 likely to be hit





Labour market will get crunched in that environment – despite massive Government spending. - As more return to work we see unemployment at near 8% in early 2021. Then 7% by end 2021 and 6% in 2022.

