Slido.com | Event code #PPFB22 #PitcherBudgetAnalysis

Pitcher Partners

Federal Budget 2022-23 | October

October 2022

bakertilly NETWORK MEMBER

Sally Auld

Chief Investment Officer

JBWere

JBWere

Budget 2022-23 Mark II

Sally Auld
Chief Investment Officer
October 2022

JBWere

Budget 2022-23 Mark II: Restraint and Resilience

Short term improvement

- The Treasurer has handed down a budget that shows the budget deficit for 2022-23 at $36.9bn, a $41.1bn improvement since the release of the Pre-Election Economic and Fiscal Outlook (PEFO) in April.
- Most of this improvement is due to more favourable economic parameters. Beyond the current fiscal year, there are only modest changes to forecast budget outcomes in the next few years.

Fiscal vs. Monetary

- The budget has largely delivered on its commitment not to exacerbate the inflationary dynamic in the economy.
- To this extent, monetary and fiscal policy are not working at cross purposes and we expect the RBA to view the budget as neutral in the context of near term policy decisions.

Longer term

- The government's first budget has started the conversation on fiscal sustainability, but the difficult questions around tax and expenditure policy remain unanswered.
- Longer-term fiscal outcomes have deteriorated due to lower assumed productivity growth, higher debt servicing costs and rising NDIS funding costs.
- Structural reform initiatives designed to increase the productive capacity of the Australian economy are reflected in the budget's focus on increasing labour market participation and investment in skills and education.

Financial markets

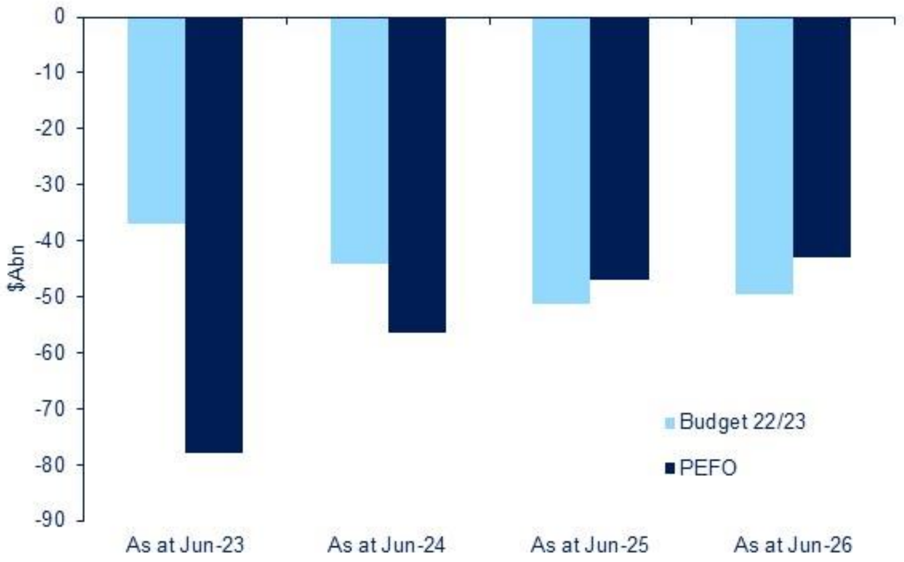
- We view the budget as broadly neutral for financial markets. Both government bond futures and the currency were largely unchanged in the wake of the budget's release.
- The lack of immediate policy initiatives means there is little near-term read through to specific stocks or sectors of the ASX200, in our view.
- Sectors leveraged to childcare and housing may be medium term beneficiaries.
- The consumer discretionary sector may struggle in the face of the budget's forecasts for negative real wage growth and rising energy prices.

JBWere

The fiscal outlook

Improvement this year

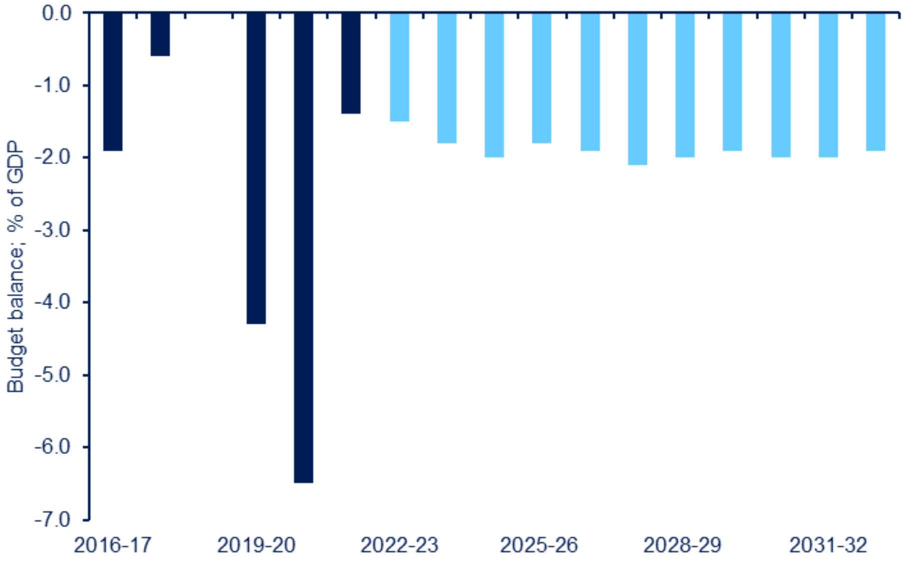
Underlying cash balance; $Abn



Source: Commonwealth Treasury and JBWere. Past performance is not an indicator of future performance.

But not in the out years...

Budget balance; % of GDP



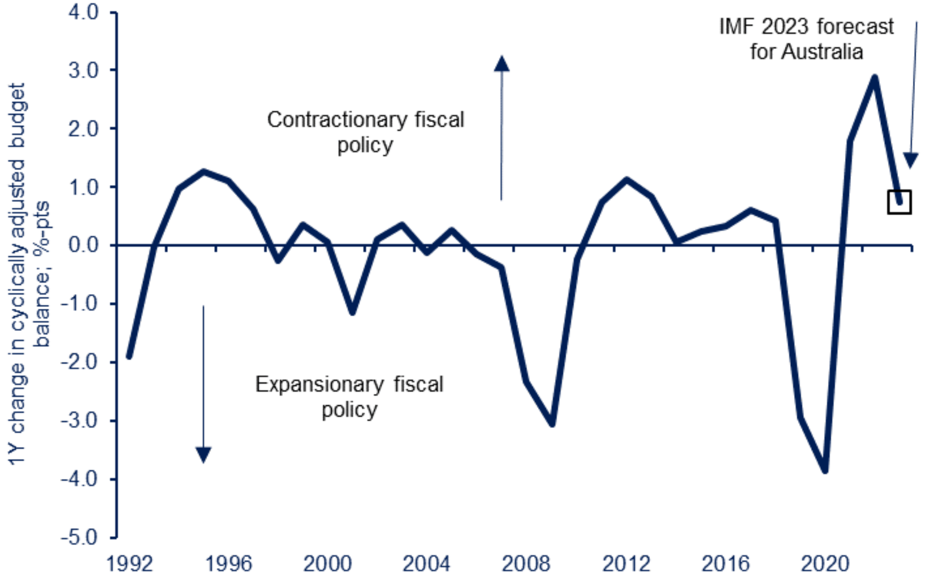
Source: Commonwealth Treasury and JBWere. Past performance is not an indicator of future performance.

JBWere

For macro and monetary policy

Assessing the stance of fiscal policy

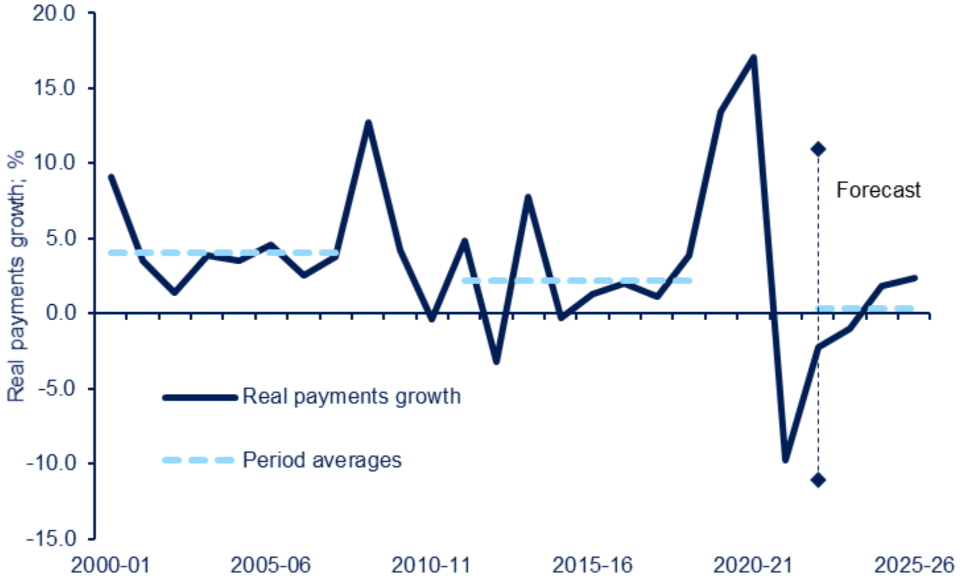
1Y change in cyclically adjusted budget balance



Source: IMF and JBWere. Past performance is not an indicator of future performance.

Restraint

Real payments growth; %



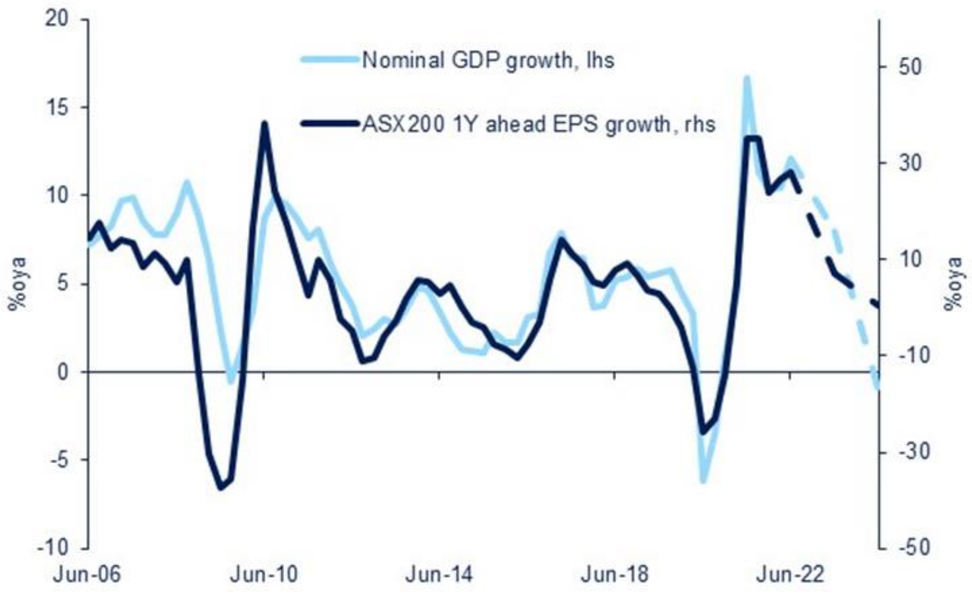
Source: Commonwealth Treasury and JBWere. Past performance is not an indicator of future performance.

JBWere

For markets

Weaker earnings outlook

ASX200 earnings growth vs. nominal GDP growth



Source: Bloomberg and JBWere. Past performance is not an indicator of future performance.

Forecasts

Inflation up, growth down

Economic variable	Forecasts (%)		
	2022/23	2023/24	2024/25
Real GDP	3.25 (3.5)	1.5 (2.5)	2.25 (2.5)
CPI	5.75 (3.0)	3.5 (2.75)	2.5 (2.75)
Unemployment rate	3.75 (3.75)	4.5 (3.75)	4.5 (3.75)
Wage Price Index	3.75 (3.25)	3.75 (3.25)	3.25 (3.5)

Source: Commonwealth Treasury and JBWere. Past performance is not a reliable indicator of future performance. CPI and Wage Price Index forecasts are in year-ended terms as of June; the unemployment rate forecast is as at the end of the June quarter and Real GDP forecasts are %-change on the previous year

Beyond

JBWere

1840

JBWere

Disclaimers and general disclosures

Important Notice

This report has been prepared by JBWere Limited (JBWere) and comprises general advice only. In preparing it, JBWere did not take into account your investment objectives, financial situation or particular needs. Before acting on any advice contained in this report, you should consider whether the advice is appropriate in light of your financial circumstances or contact your adviser. JBWere recommends that you consider the relevant Product Disclosure Statement or other disclosure document, where relevant, before making investment decisions in relation to any particular product mentioned in this report.
JBWere's advisers and other professionals may provide oral or written market commentary or trading strategies to clients that reflect opinions that are contrary to the opinions expressed in this report, and they may make investment recommendations that are inconsistent with the recommendations or views expressed in this report.

Ownership and Material Conflicts of Interest

JBWere requires all research personnel to disclose to JBWere any material investment position or financial interest in issuers that they review. Research personnel are paid in part based on the profitability of the National Australia Bank Limited group (NAB Group), which includes JBWere.
No business units within the NAB Group which provide corporate advisory services, including JBWere's markets division (which provides capital raising services) have any input into determining the budget decisions, bonuses or allocations of resources for any business units within JBWere which produce research. The revenue and results of JBWere's markets division are not taken into account when determining JBWere's research budgets or expenses.
In the last twelve months, JBWere has played a role in transactions for certain entities which may be referred to in this report. For details, go to *Deal Flow Participation*.

JBWere's research analysts may from time to time hold financial products that are the subject of a JBWere research report. The *Managing Conflicts of Interest and Maintaining the Integrity of Research Policy* sets out how JBWere manages these conflicts. Please refer to the *list of financial products currently held by JBWere's research analysts*.

The NAB Group and associates, may have provided, provides or seeks to provide investment banking, capital markets and / or other services, to the issuers and their associates mentioned in this report.

Our research process

Further information about the methodology applied by JBWere in preparing research reports is available on the *JBWere website*.

General Disclosures

This report is not an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. The information contained in this report is subject to change without notice. The price and value of the investments referred to in this report and the income from them may fluctuate. Past performance is not a guide to future performance. Future returns are not guaranteed and a loss of original capital may occur. Certain transactions, including those involving futures, options, and other derivatives, give rise to substantial risk and are not suitable for all investors.

JBWere

Disclaimers and general disclosures

In producing research reports, members of JBWere's Investment Strategy Group may attend site visits and other meetings hosted by the entities mentioned in those reports. In some instances the costs of such site visits or meetings may be met in part or in whole by the issuers concerned if JBWere considers it is appropriate and reasonable in the specific circumstances relating to the site visit or meeting.

JBWere's research is disseminated primarily electronically, and, in some cases, in printed form. Electronic research is generally made available simultaneously to all clients.

General Disclaimer

So far as laws and regulatory requirements permit, JBWere, its related companies, associated entities and any officer, employee, agent, adviser or contractor thereof (JBWere Group) does not warrant or represent that the information, recommendations, opinions or conclusions contained in this report (Information) is accurate, reliable, complete or current and it should not be relied on as such. The Information is indicative and prepared for information purposes only and does not purport to contain all matters relevant to any particular investment or financial instrument. Subject to any terms implied by law and which cannot be excluded, the JBWere Group shall not be liable for any errors, omissions, defects or misrepresentations in this report (including by reasons of negligence, negligent misstatement or otherwise) or for any loss or damage (whether direct or indirect) suffered by persons who use or rely on the Information. If any law prohibits the exclusion of such liability, the JBWere Group limits its liability to the re-supply of the Information, provided that such limitation is permitted by law and is fair and reasonable.

Research Analyst Disclaimer

The Information accurately reflects the personal views of the author(s) about the securities, issuers and other subject matters discussed, and is based upon sources reasonably believed to be reliable and accurate. The views of the author(s) do not necessarily reflect the views of JBWere. No part of the compensation of the author(s) was, is, or will be, directly or indirectly, related to any specific recommendations or views expressed in this report.

Other Research Providers

This report may contain a restatement, summary or extract of a report prepared by UBS Securities Australia Limited (UBS) or a related body corporate (UBS Report). Please contact your JBWere adviser if you would like a copy of the UBS Report. For information on the ways in which UBS manages conflicts and maintains independence of its research product; historical performance information; and certain additional disclosures concerning UBS research, please visit *www.ubs.com/disclosures*.

This report has been prepared for distribution only to clients of JBWere (and potentially to clients of other financial advisers). It may not be reproduced or distributed without the consent of JBWere. Please refer to the full details of the important disclosures, available in the Disclosures section of the JBWere Limited website.

Prepared by JBWere Ltd ABN 68 137 978 360 AFSL 341162

Distribution in New Zealand

This research has been distributed in New Zealand by JBWere (NZ) Pty Ltd. This report has been produced for Australian clients where Australian macro-economic factors have been considered (in addition to global ones). Please be aware of this if reading this report outside of Australia.

Brian Farrelly

Partner – Tax Advisory

Pitcher Partners

Pitcher Partners

Federal Budget 2022-23 | October

A stable budget in an unstable world

Tax measures to increase revenue and support families

October 2022

bakertilly NETWORK MEMBER

What we are covering today

Overview

Individuals

Business

Other measures

"This time demands a different response.

One that puts a premium on what's responsible, affordable, and sustainable.

That's why this Budget pays for what's important, strengthens our buffers against adversity, and begins to build a better future."

2022-23 Federal Budget Speech // Treasurer // 25 October 2022

What was in there

Family friendly budget

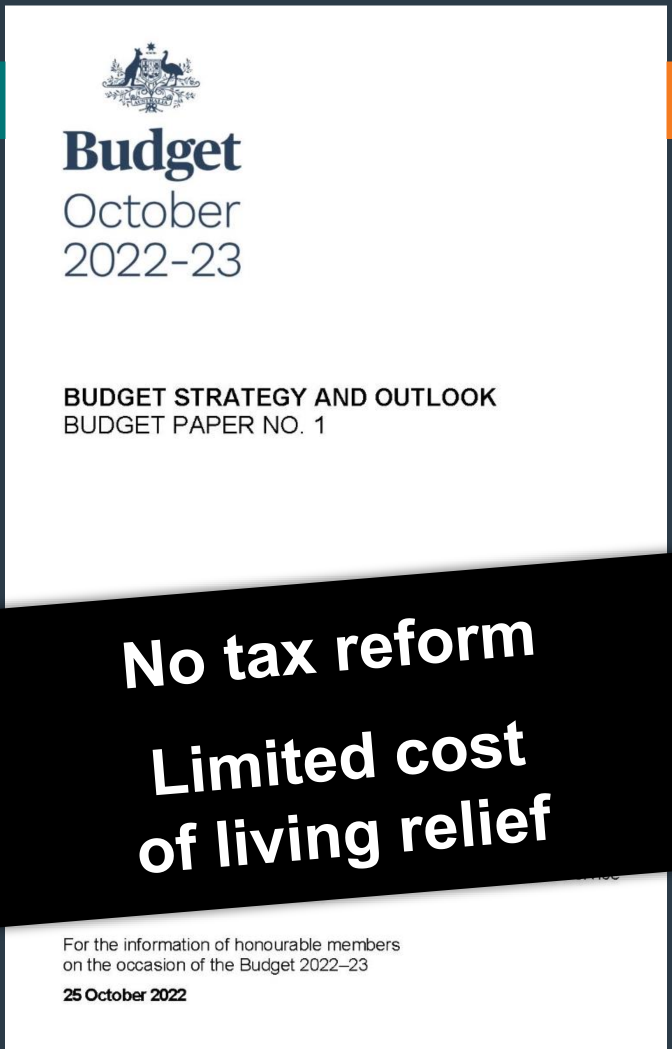
Paid Parental Leave Expansion

Increased Child Care Subsidies

Multinationals Tax Integrity Measures

Share Buyback Rules

ATO Funding


Budget
October
2022-23

BUDGET STRATEGY AND OUTLOOK
BUDGET PAPER NO. 1

For the information of honourable members
on the occasion of the Budget 2022–23

25 October 2022

No tax reform

Limited cost of living relief

What was missing

Limited support for Small Business

No word on Stage 3 Tax Cuts

No extension of relief measures

Tax Offsets

Temporary Full Expensing

Fuel Excise Discount

Dealing with Announced But Unenacted Measures

Pitcher Partners

Paid parental leave

Individuals

Expanding the scheme from 18 to 26 weeks

Extra fortnight added to scheme each year from 1 July 2024 until full 26 weeks available from July 2026

Flexibility for families so that either parent can claim, sharing the leave entitlement and ability to claim concurrently

Means testing increased from $156,647 to $350,000 family income test

PITCHER PARTNERS

Child care subsidies

Individuals

Maximum Child Care Subsidy (CCS) rate increased from 85% to 90% for first child in care for families earning up to $80,000

Sliding scale in subsidies provided for family incomes up to $530,000, increased from $353,680

Increase the CCS rate for every family earning less than $530,000

Applies from 1 July 2023

PITCHER PARTNERS

Individuals

Proposed rates and thresholds

Stage 3 Tax Cuts

Rate[1]	2021-22	2022-23 / 2023-24	2024-25 onwards
Nil	\$0 – \$18,200	\$0 – \$18,200	\$0 – \$18,200
19%	\$18,201 – \$45,000	\$18,201 – \$45,000	\$18,201 – \$45,000
30%	N/A	N/A	**\$45,001 – \$200,000**
32.5%	\$45,001 – \$120,000	\$45,001 – \$120,000	**Removed**
37%	\$120,001 – \$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 \$1,500**	**Removed**	–
Low income tax offset	Up to \$700	Up to \$700	Up to \$700

1. Note that these rates exclude the Medicare Levy

Pitcher Partners

Share buybacks

Integrity rules for listed public companies

Treats off-market share buybacks the same as on-market share buybacks for tax purposes

Whole purchase price treated as capital proceeds for CGT purposes

No dividend component, so **no franking credits**

Hits entities that would otherwise benefit from franking credits ($550m of savings over 4 years)

Effective from Budget Night

Multinational tax integrity measures

Thin capitalisation changes

Removal of the Safe Harbour Debt Amount Test

New Earnings-based test limiting debt deductions to 30% of EBITDA

Allow deductions denied under the EBITDA test to be carried forward and claimed for up to 15 years

Replace the worldwide gearing test with earnings-based group ratio using the worldwide group's net interest expense as a share of earnings

Retain arms length debt test but only applies to an entities external (third party) debt, disallowing deductions for related party debt

Retain existing thin capitalisation rules for financial entities

No draft legislation and measures apply from **1 July 2023**

Multinational tax integrity measures

Other measures

Denying deductions for payments relating to intangibles in low tax jurisdictions

Applies to significant global entities making payments for intangibles to countries with a tax rate of <15% or with a preferential patent box regime

Reporting obligations

Significant global entities to make public country by country tax info and approach to taxation statement

Australian public companies (listed and unlisted) to disclose number of subsidiaries and tax domicile

Tenderers for material Australian Government contracts to disclose their country of tax domicile

Increased ATO funding

Investing to collect

ATO Compliance Programs

Personal Income Taxation Compliance Program	Shadow Economy Program	Tax Avoidance Taskforce
Extending the program until 30 June 2025 to focus on non-compliance, overclaiming and incorrect reporting	Extending the program until 30 June 2026 that focuses on tackling the shadow economy and creating a level playing field	Boosting funding to extend Taskforce to 30 June 2026 ATO pursuing priority areas of business tax risks with ongoing focus on multinational enterprises and large public and private businesses
Spend $80.3m	**Spend $685m**	**Spend $1.1b**
Collect $674.4m	**Collect $2.1b**	**Collect $2.8b**
840% Return on investment	**300%** Return on investment	**255%** Return on investment

Announced but unenacted measures (ABUMs)

Still a backlog

There are approximately 70 previously announced measures that remain unenacted

Government only provided updates on abandoning 9 measures and deferring 3 measures

Key Tax ABUMs not mentioned				
Corporate Tax Residency	**Superannuation non-arms length income and expense provisions**	**Division 7A**	**Patent Box Tax Regime**	**R&D changes**

Pitcher Partners

Other measures

Electric cars discount

Exemptions for electric cars from fringe benefits tax and import tariffs

For cars less than $84,916

Applies for cars acquired after 1 July 2022

Depreciation on intangible assets

Reversing previous measure to allow taxpayers to self-assess effective life of intangible depreciating assets

Was to be effective from 1 July 2023

Applies immediately

Digital currency not foreign currency

Maintain current tax treatment of digital currencies, removing uncertainty given international positions

Applies from 1 July 2021

Penalty unit increase

Penalty unit increasing from $222 to $275 applied to any offence under federal laws

To be indexed every 3 years with CPI

Applies from 1 January 2023

PITCHER PARTNERS

Key takeaways

Overview

A stabilising budget with little in the way of tax measures

Individuals

Limited cost of living relief

Family friendly measures on paid parental leave and child care subsidies

Business

Nothing for small business to either enhance or interrupt their growth

Increased tax integrity measures for multinationals

Important information

Pitcher Partners

This presentation (‘Presentation’) has been produced by Pitcher Partners and has been prepared for informational and discussion purposes only. The information provided in this document is of a general nature and has been prepared without taking into account your objectives, circumstances, financial situation or particular needs. This Presentation does not constitute personal advice.

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.

Pitcher Partners

Federal Budget 2022-23 | October

Making business ***personal***

pitcher.com.au