



Victorian
Chamber of Commerce
and Industry



2020-21

FEDERAL BUDGET OVERVIEW

> 2020-2021 Federal Budget Overview



Federal Treasurer Josh Frydenberg's second Budget was delivered on 6 October 2020.

With a deliberate focus on economic and job recovery, the Victorian Chamber of Commerce and Industry has welcomed several key Budget initiatives aligned to our advocacy including business wage subsidies for hiring young job seekers and new apprentices and trainees, the bring forward of personal tax cuts, a major support package to spur local manufacturing, small business tax breaks, increased incentives for new business investment and spending to support a number of Victorian rail and road projects.

The Budget will provide a major boost to Victorian business confidence, encourage new jobs growth and stimulate spending at a time when the Victorian economy needs it most.

However, the Budget's reboot to economic activity comes at a cost with an estimated deficit of \$213.7 billion in 2020-21 and \$66.9 billion in 2023-24. Already an unprecedented \$257 billion in government economic support has been spent since the onset of COVID-19.

The Budget forecasts real GDP is forecast to fall by 3% per cent in 2020 before recovering in 2021 to grow by 4% per cent. The unemployment rate is expected to peak at around 8 per cent this year, before falling over the next few years.

Key to the Budget's economic and financial projections are major assumptions of a COVID-19 vaccine in place by late 2021 and the progressive lifting of domestic and international border restrictions.

Significant headwinds remain, including the prospect of persistent labour market dislocation, ongoing restructuring amongst businesses and uncertainty surrounding global supply chains and markets.

Overview

The 2020-21 Federal Budget provides a strong impetus for recovery with several initiatives that will buoy business and consumer confidence, foster new investment and innovation, and accelerate jobs growth.

The Budget includes tax cuts for lower and middle income earners with the bring forward of Stage Two of legislated tax cuts by two years, lifting the 19 per cent threshold from \$37,000 to \$45,000, and lifting the 32.5 per cent threshold from \$90,000 to \$120,000. This will inject much needed spending into the economy.

Victorian employment will be spurred with JobMaker Hiring Credits of up to \$200 per week for eligible employees aged 16-35 years.

Employment prospects for apprentices have been strengthened with the Boosting Apprentices Wage Subsidy that provides a 50 per cent reimbursement of an apprentice or trainee's wages worth up to \$7,000 per quarter.

The Budget eases the cost and complexity of business taxes by expanding access to SME tax concessions, including the ability to immediately deduct certain start-up expenses which are ordinarily considered capital in nature.

The Budget also expands the current FBT exemption for small business car parking fringe benefits. Certain employer-provided retraining and reskilling will also be exempt from Fringe Benefits Tax.

The introduction of temporary loss carry-back will provide cash flow support by enabling to offset losses against previous profits on which tax has been paid, to generate a refund.

Victorian manufacturers will benefit from a new \$1.5 billion Modern Manufacturing Strategy that will target six key industries where

Victoria already has considerable strengths:

- Resources, technology and critical minerals processing
- Food and beverages
- Medical products
- Recycling and clean energy
- Defence, and space

Business research and development receives a welcome boost with the Budget increasing R&D funding through a range of amendments to thresholds and rates of assistance that will encourage both large and small companies to invest in R&D activity.

Exporters will benefit from funding to streamline border services to reduce administrative complexity and improve the efficiency of international trade. However, it is disappointing that the Budget does not make additional funds available to the existing EMDG scheme.

A \$1.1 billion investment in Victorian infrastructure focuses on reducing urban congestion and improving freight efficiency. It includes funding for several regional road and rail projects the Victorian Chamber has identified as priorities to grow trade and improve liveability.

Victoria's regions and tourism industry will welcome funding earmarked for tourism-related infrastructure projects aimed at attracting domestic visitors back to the regions. There is also much needed additional regional recovery partnerships funding targeted at areas including Gippsland that have been hit hard by drought, bushfires and COVID-19 restrictions.

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Key Federal Budget outcomes for Victorian business

Jobs and skills

- A new hiring credit to encourage businesses to hire younger Australians, payable for up to 12 months and immediately available to employers who hire those on JobSeeker aged 16-35 providing \$200 per week for those aged under 30, and \$100 per week for those aged between 30-35.
- \$1.2 billion for apprentice and trainee wage of 50 per cent of the commencing or recommencing apprentice or trainee's gross wages paid until 30 September 2021, up to \$7,000 per quarter.
- \$29.6 million to support the National Careers Institute to simplify and strengthen career information, promote VET pathways, and enhance partnerships between industry, employers, schools, and tertiary providers.

Industry and Innovation

- Reinstatement of the \$2 billion for the R&D Tax Incentive scheme.
- \$1.3 billion for the Modern Manufacturing Initiative to help businesses in six National Manufacturing Priority areas to scale-up, collaborate and commercialise.
- Stimulate demand in residential construction by extending the First Home Loan Deposit Scheme.
- \$800m to transition to digital technologies including \$19.2 million expansion of an advisory program to help small businesses adopt digital technologies.

- An additional \$1.0 billion in Research Support Program to support universities' costs of research.
- \$35.9 million to increase the number of co-funded grants to women-founded start-ups under the Boosting Female Founders Initiative.

Regional Victoria

Over \$550 million to support regional Australia recover from the impacts of COVID-19, including:

- \$200 million in grants through the Building Better Regions Fund with \$100 million of the fund for tourism-related infrastructure.
- \$100 million over two years will go towards Regional Recovery Partnerships.
- \$51 million to support regional tourism operators grow and diversify their business.

Taxation

- Until June 2022, businesses with turnover up to \$5 billion will be able to deduct the full cost of eligible depreciable assets of any value in the year they are installed.
- Introduction of a loss carry-back provision allowing a firm that has paid tax on profits in previous years, claim back a refund to offset a loss.
- Certain employer-provided retraining and reskilling will be exempt from FBT encouraging employers to help redeployed workers transition to a new role within or outside the business.
- Increase the turnover threshold for small to medium

businesses by lifting the aggregated annual turnover threshold from \$10 million to \$50 million.

- Expand the current FBT exemption for small business car parking fringe benefits to include businesses with an aggregated annual turnover between \$10 million and \$50 million.

Infrastructure

\$1.1 billion towards road and rail projects in Victoria including:

- \$320 million for the Shepparton Rail Line Upgrade.
- \$292 million for Barwon Heads Road.
- \$208 million for stage 2 of the Warrnambool Rail Upgrade.

Fiscal and economic outlook

- The budget deficit will reach \$213.7 billion in 2020-21, falling to \$66.9 billion by 2023-24.
- Net debt will increase to \$703 billion or 36 per cent of GDP in 2020-21 and peak at \$966 billion or 44 per cent of GDP in June 2024.
- The Australian economy is in its first recession in 30 years and is forecast to continue to contract by 1.5 per cent this financial year before optimistic growth of 4.75 per cent is anticipated in 2021-22.
- The unemployment rate is expected to peak at around 8 per cent in the December quarter of 2020 and is expected to decline to 5.5 per cent by June 2024.

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Australia's economic forecast (%)	2019-20 outcomes	2020-21 forecast	2021-22 projections	2022-23 projections	2023-24 projections
Real GDP	-0.2	-1.5	4.75	2.75	3
Employment	-4.3	2.75	1.75	1	1.75
Unemployment rate	7	7.25	6.5	6	5.5
Consumer price index	-0.3	1.75	1.5	1.75	2
Wage price index	1.8	1.25	1.5	2	2.25