

MAY 2021

# FEDERAL BUDGET 2021 REPORT FOR INDUSTRY

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# INTRODUCTION

It has been a challenging last 12 months for Australians, and the ongoing personal and economic effects of COVID continue to be felt both at home and abroad. After a year of government support and rescue strategies to shield the economy, this year's federal budget can be seen as the next stage on the road to economic recovery.

The 2021 budget is certainly not one of austerity. The government has stated this budget is all about targeted assistance for economic recovery. It contains big spending on national infrastructure projects, research, welfare and other measures all aimed at driving down unemployment below the targeted 5%.

Although there is nothing in this year's federal budget that is specifically targeted at our industry, we are not alone. However, variable business tax concessions, concessions for investment, the potential for work to flow through from targeted industry areas within the budget, continued incentives for taking on apprentices and trainees, along with the extension of the asset write off scheme from last year are likely to bring benefit to our industry.

Given the significant capital expenditure required for operating in our industry, TRMC made various representations to government highlighting the benefit of last year's asset write off and loss carry back measures. The extension of those measures in this budget will continue to give our industry an opportunity to focus on upgrading their operational capabilities and potential moving forward. We say this will assist in our aim to ensure as production as possible stays onshore now and into the future.

Despite the budgetary deficit being less than expected, this year's budget deficit is forecast to be \$161 billion this financial year and \$106 billion in 2021-2022. Government debt is expected to further reduce by 2025, but will ultimately head towards \$1 trillion dollars across the rest of this decade.

The following report is an overview of the 2021 budget with a focus on the influential aspects most relevant to The Association members and the industry sectors we represent. This includes a range of issues that have an impact on businesses and their people. Some aspects of this year's budget will directly benefit members and their employees, while others will have a flow on effect across customer sectors and the industry supply chain.

# BACKGROUND

## BACKGROUND

Last year approximately two thirds of Australian businesses used government support and stimulus mechanisms, such as JobKeeper, and considered them an imperative to have avoided more significantly negative outcomes for business and employees.

The path chosen by government for influencing the Australian economy last year can be seen to have worked when compared to other developed countries. Our somewhat isolationist approach has resulted in better than expected economic conditions and outcomes. By contrast to other countries, Australia is doing well from an economic perspective particularly compared to other developed countries.

This year's federal budget comes at a time when the general economic conditions of the country are back to pre-COVID levels or improving. However, while the economy is generally back to the size it was before the pandemic, key parts of the country and the economy have yet to recover. Further, while there has been an improvement in the unemployment rate, there has been a shift to higher levels of part-time employment. Unemployment rates in central business districts remain elevated while the tourism, international education and hospitality sectors continue to struggle. Further, certain regions are experiencing a shortage of employees particularly in agribusiness and regional hospitality since having experienced an upswing in patronage due to limited overseas travel.



# AUTHOR

## **CHARLES WATSON IS THE GM - IR, POLICY AND GOVERNANCE.**

Watson brings twenty (20) years' experience across law firms, industrial and workplace agencies, and industry bodies. A high level of expertise across the nine (9) Awards our member sectors operate within, specifically focused for thirteen (13) years. Specialties include:

- > Governance and compliance,
- > Advocacy before various tribunals and to government,
- > Managing claims and disputes,
- > Change management and organisational design,
- > Workplace investigations,
- > Negotiation and mediation,
- > Enterprise agreements,
- > Training and communications, and
- > Policy development.

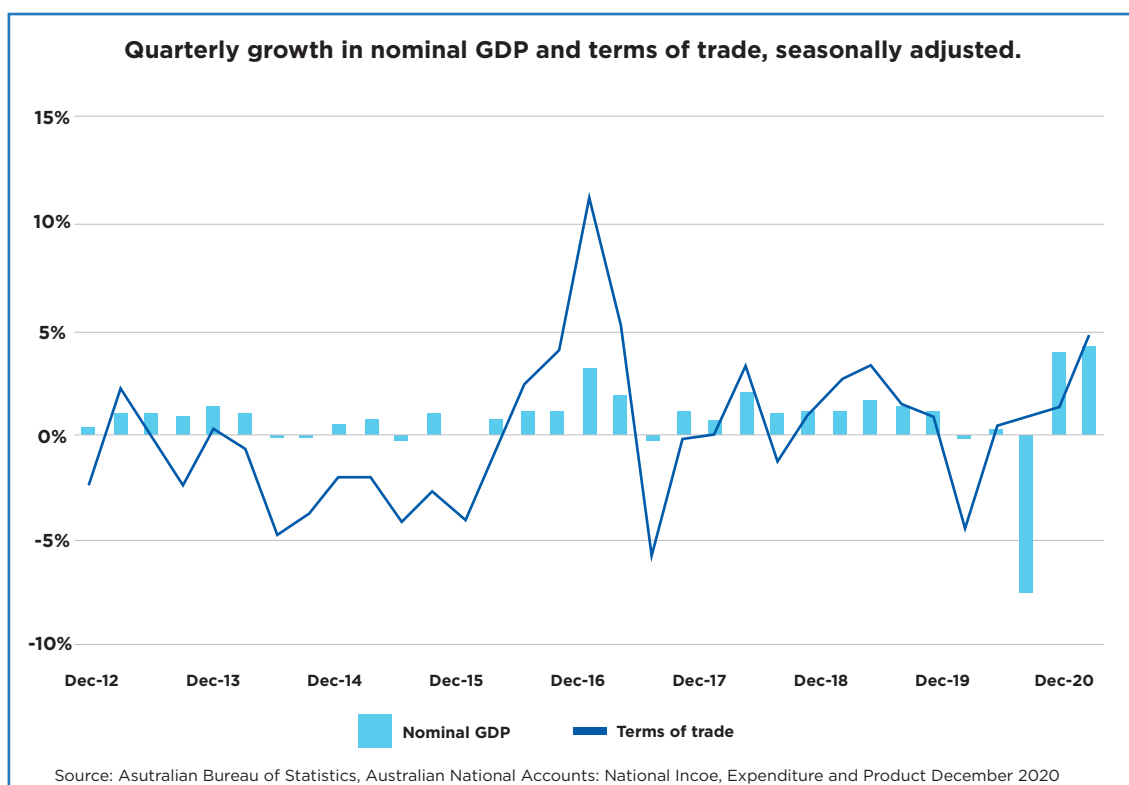
# ECONOMIC CONTEXT

Leading into this year's budget a range of general economic indicators have moved back to encouraging figures and levels. Although such statistics paint a promising picture caution must continue to be applied given the full impact from the end of JobKeeper and other government subsidy schemes are not yet fully realised. The state of the following indicators provides members with the context behind the government's fiscal approach to this budget.

## GROSS DOMESTIC PRODUCT

According to the Australian Bureau of Statistics (ABS), in the December 2020 quarter the Australian economy measured by GDP rose 3.1% which followed a 3.4% rise in the September 2020 quarter.

The terms of trade rose 4.7% this quarter off the back of higher export prices, particularly for iron ore which has defied expectations and risen to \$255 a tonne. This has resulted in higher than expected government revenues so as to offset much lower previous forecasts. The strength in the terms of trade contributed to a 4.2% increase in nominal GDP, the strongest rise since September quarter 1983. Additionally, household spending increased by 4.3% for the final quarter of last year, but remained down throughout 2020 by 2.7%.



# ECONOMIC CONTEXT

## BUSINESS CONFIDENCE

The Roy Morgan Business Confidence poll evidences a general confidence on the prospects for Australian business economic conditions. Although confidence dropped for much of 2020 there has been a rebound from November 2020 and has continued to climb over the last six months to higher averages than the yearly average for 2019.

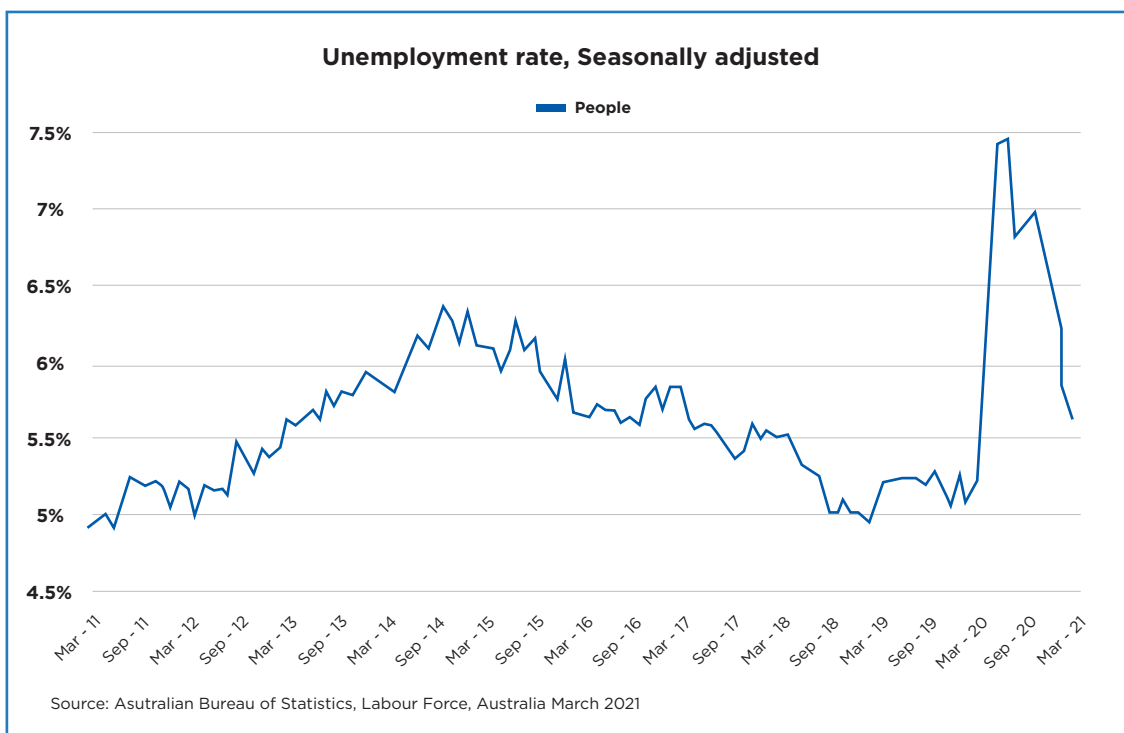
Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Averages
2021	120.5	120.8	124.0	125.3									<b>122.7</b>
2020	101.6	104.6	95.1	76.9	89.9	95.0	84.3	83.1	85.6	98.7	109.1	123.2	<b>95.6</b>
2019	105.9	105.6	106.7	102.9	114.4	114.7	114.0	114.3	110.6	106.0	108.4	104.5	<b>109.0</b>

(Roy Morgan – Business Confidence 2010-2021)

# ECONOMIC CONTEXT

## EMPLOYMENT

Seasonally adjusted unemployment rate estimates for March 2021 evidence the rate decreased to 5.6%, down from 6.3% at the start of 2021.



However, taking a deeper dive into the ABS statistics, in seasonally adjusted terms, in March 2021:

- > employment increased by 70,700 people (0.5%) to 13,077,600 people.
- > over the year to March 2021, employment increased 74,300 people (0.6%).
- > full-time employment decreased by 20,800 to 8,874,200 people, and part-time employment increased by 91,500 to 4,203,400 people.
- > the part-time share of employment over the past 12 months increased by 0.4 pts to 32.1%.

Nevertheless, with higher employment figures than was forecast last year, and fewer Australians receiving social security, there was a lift in personal income and therefore higher than expected rates of tax revenue being collected. This has had a positive effect on expected budgetary impacts from last year.

# BUSINESS AND INDUSTRY INITIATIVES

## **ASSET WRITE-OFF AND LOSS CARRY BACK EXTENSION**

The government has announced that the asset write off measures brought in under the last budget will continue until the end of June 2023. Effectively a business with a turnover of up to \$5b and businesses with income of less than \$5b will be able to claim an immediate deduction for the capital costs associated with purchasing eligible depreciable assets purchased since the last budget through to 30 June 2023.

Additionally, this budget extends the temporary loss carry back for an additional year. Companies with a turnover of less than \$5b will be able to write off any COVID induced losses incurred up to June 2023 against previously taxed profits made going back to the 2018-2019 financial year.

### **For consideration**

*The Association welcomes the extension of these existing measures that give members the opportunity to invest in new and upgraded equipment with %100 write-off.*

## **SUPPLY CHAIN INITIATIVES**

Supply chain resilience became a significant issue last year, and evidenced some fragility for Australian businesses. This year's budget has allocated \$107m for the creation of a new federal government agency, the Office of Supply Chain Resilience, that will oversee and improve related vulnerabilities. Although it will initially commence with issues surrounding Australian vaccine manufacturing, it will move on to other areas and industries.

# BUSINESS AND INDUSTRY INITIATIVES

## SME'S

The government has considered small business in this budget:

- > SME's with a turnover of less than \$50m will benefit from a reduction in the company tax rate from 30% to 25% from 1 July 2021.
- > As part of a \$1.2b injection into the digital economy, the government intends to provide more training in digital skills and business capabilities including an expansion of the governments small business digital solutions advice service.
- > Small businesses, with an annual turnover of less than \$10m, will be allowed to apply to the Administrative Appeals Tribunal to act as an intermediary to pause or modify any disputed ATO debt recovery actions. This takes them out of strict court-based litigation system and the associated costs, at least for a period of time. This can be seen as a potential benefit to small businesses facing the weight of the ATO.

### **For consideration**

*Given SME's form the majority of businesses in our overall industry, The Association welcomes the expected relief from the reduction in company tax for small to medium businesses.*

## TECHNOLOGY INITIATIVES

This year's budget has a range of technology related initiatives, including:

- > Federal government suppliers that e-invoice will be guaranteed payment within 5 days or be paid interest.
- > As part of a \$1.2b injection into the digital economy, the government intends to provide more training in digital skills and business capability.
- > \$130m has been allocated for the improvement of digital connectivity in rural and regional communities.
- > \$16.4m has been allocated to improve mobile phone services in bushfire prone areas outside of metropolitan areas.

# BUSINESS AND INDUSTRY INITIATIVES

## INFRASTRUCTURE INITIATIVES

The government is applying \$15b to infrastructure spending across the nation over the next decade. As part of this announcement there is a particular concentration on regional and rural initiatives aimed at stimulating those communities and will include various infrastructure projects and regional grants. The proposed funding will be spread across projects that include road, transport, gas, power storage, and water infrastructure.

Some examples of budget commitment for infrastructure projects include:

- > \$22.3 million to develop business cases for eight new water infrastructure projects in NSW, Victoria, South Australia and Tasmania.
- > Western Australia has \$1.3b allocated for roads and transport infrastructure projects.
- > Victoria has \$3b allocated for various projects, including \$2b for the Melbourne Intermodal Terminal (subject to matching funding from the Victorian government).
- > NSW has \$3.3b allocated for major road projects.
- > Queensland has \$1.6 allocated for road and rail improvements.
- > South Australia has \$3.2b allocated for road improvement projects.
- > Tasmania has \$322.6m allocated for various infrastructure projects.

During the delivery of the 2021 budget, the Treasurer has said that funding for the various “shovel-ready” projects is to be provided on a “use it or lose it basis”.

Government spending on purposeful infrastructure is not an original idea and has historically been the go to under recession type conditions. Mostly such initiatives are a justifiably beneficial investment. Generally, they result in positive outcomes, efficiencies and returns to those benefiting communities and the general economy, particularly until the private sector reaches a resting heart rate of between 60 -100bpm across all sectors of the economy. Large infrastructure projects is good news for regional Australia and will result in flow on work for our industry.

# EMPLOYMENT INITIATIVES

This year's budget has a concentration on job creation and lowering the unemployment rate to below 5%. With that aim the government has determined to:

- > Overhaul the JobMaker hiring credit program which has not fulfilled its aim of increasing the employment of workers under 35 years of age.
- > Introduce amendments to taxation so as to attract highly skilled individuals to relocate to Australia under the Global Talent visa.
- > An injection of \$9b over a four-year period to fund a JobSeeker increase of \$50 per fortnight.
- > The JobTrainer program will receive a \$1b extension to train and reskill 17-24 year olds.
- > The current apprenticeship and traineeships subsidy scheme is being extended with an injection of a further \$2.7b to reimburse employers by up to %50 of wages.

## **For consideration**

*Although The Association welcomes the proposals, government will need to include industry sectors in the process to ensure the proposals are successful and fulfil their aims.*

## **PERSONAL INCOME TAX**

The government has announced \$7.2b to extend the "Low and Middle Tax Offset" for a further 12 months through to 30 June 2023. The tax rebate amount (between \$225 - \$1080) differs across different income groups between \$37k and \$126k, and is provided to employees upon completion of their tax returns.

## **For consideration**

*Personal income tax cuts are welcomed, particularly for lower income earners who will benefit immediately and are more likely to put those dollars back into the economy as 'COVID-19 normal' society commences.*

## **SUPERANNUATION**

From 1 July 2022 this budget removes the current \$450 a month threshold to pay compulsory superannuation contributions in an aim to boost the retirement incomes of thousands of part-time workers. Further, the maximum withdrawal from superannuation for purchasing a house has been increased from \$30k to \$50k. Additionally, it appears the next increase to the superannuation guarantee contribution rate (up from 9.5% to 10%) will occur from 1 July 2021.

# EMPLOYMENT INITIATIVES

## WORKPLACE EQUITY INITIATIVES

As part of the governments bid to overcome gender inequity and sexual harassment in workplaces, it has committed to:

- > An investment of \$38.3m to expand the Women's Leadership and Development Program which target projects that will improve outcomes for Australian women across five key areas:
  - o job creation;
  - o economic security;
  - o workforce participation;
  - o leadership; and
  - o safety.
- > Provide \$6m to the Workplace Gender Equality Agency (WGEA) to increase its efforts in the prevention of sexual harassment in workplaces.
- > Provide an additional \$9.3m to the Respect@Work Council.

### **For consideration**

*The Association, in partnership with our secretariat support of Women in Print, welcomes these initiatives and proposed programs for recognising the effects of COVID-19 on women and their employment, and for supporting the beneficial investment in women's economic capability and leadership into the future. Our hope is that such funding results in an ongoing and sustained boost to women's employment and equitable outcomes.*

## CHILDCARE

The government has announced a \$1.7b package across the next three years. From July this year, the childcare subsidy for families with two or more children aged five and under will increase to a maximum of 95% up from the current 85%. The proposed measure has been forecast to save as many as 250,000 families as much as \$2,260 a year.

### **For consideration**

*The high cost of childcare will usually discourage mothers of young children from returning to the workforce and particularly fulltime employment. The economy can ill afford the loss of their abilities and talents in the workforce in the coming years. From an economic view, while this particular budgetary announcement is a good attempt, it probably doesn't go far enough. Additionally, the stated proposals will not benefit those with only one child.*

# WASTE AND RECYCLING INITIATIVES

The government will provide \$11.0 million over four years from 2021-22 to further stimulate and incentivise recycling behaviours among Australian businesses and communities. Funding includes:

- > \$5.9 million over four years from 2021-22 to conduct a further grant round of the National Product Stewardship Investment Fund.
- > \$5.0 million over three years from 2021-22 to support small businesses to adopt the Australasian Recycling Label.

Additional allocations in this year's budget include:

- > \$275m towards creating four more hydrogen hubs in regional Australia.
- > \$263.7m towards national carbon capture and storage technology projects.
- > \$565.8m for international partnerships programs for new low emission technology research.

## **For consideration**

*The Association and APIA are pleased to hear the Treasurers ongoing budgetary commitment to assisting the industry in finding onshore solutions resulting from the incoming Waste Export bans. To find a solution for the entire industry, the Collective has brought together a number of experts across a range of fields to collaborate and find a process to modify paper offcuts to enhance their value in upcycling.*

# IN CONCLUSION

The 2021 budget is not perfect and it won't satisfy the desires of every sector, but it is encouraging and builds on what was implemented in 2020. Although there is nothing in this year's federal budget that is specifically targeted at our industry, we are not alone. However, variable business tax concessions, concessions for investment, the potential for work to flow through from targeted industry areas within the budget, continued incentives for taking on apprentices and trainees, along with the extension of the asset write off scheme from last year are likely to bring benefit to our industry. Further, there will be expected flow on benefits to our industry from numerous of the infrastructure related initiatives that have been stated in this budget and as outlined throughout this report.

This year's budget is one of economic repair aimed at medium term stimulus compared to the emergency measures implemented last year. There is nothing particularly revelatory, but it is a conservative and reasonable budget overall for the circumstances we find ourselves in now and for the next few years.

It can be seen that we as a country are going to remain fairly self-reliant for our own economic growth, but that is not necessarily a bad thing. While government spending is high in this budget it is focussed on those elements that are expected to boost domestic economic activity. That being said, the economic recovery is reliant upon ongoing effective containment of any domestic COVID outbreaks and the assumption that the majority of Australians will be vaccinated by 2022.

# IN CONCLUSION

## TO DO LIST

We provide the following various consideration for members.

### **Economic stimulus measures**

- > Review and consider how your business can position itself to benefit from the significant government spending initiatives, particularly in relation to supplying into those industries that directly benefit from infrastructure and other funding.
- > SME's should consider that the new reduced company tax rates from 1 July 2021 will also become your new franking rate for dividends you pay. You should consider whether to pay dividends this year, or bring forward expenses, to get a better tax outcome.

### **Instant asset write-off extension**

- > Review and plan for any capital expenditure over this year and until 30 June 2023.
- > If your business needs to buy new plant and equipment, then doing so between now and 30 June 2023 will deliver you an upfront tax deduction for the full cost of the eligible items.
- > Your business can also apply this instant write-off to second-hand assets that your business purchases, but only if your turnover is less than \$50 million.

### **Employment issues**

- > Consider your labour requirements for the year ahead and whether there is government support available to reduce the costs of trainees and apprentices.
- > The government's plan to remove the \$450 threshold for the Superannuation Guarantee contribution will take place from 1 July 2022.
- > The Superannuation Guarantee contribution will increase to 10% from 1 July 2021.
- > Ensure your workplaces have appropriate equity policies and procedures in place, or seek advice from the team at The Association.

# ACKNOWLEDGEMENTS AND REFERENCES

## ACKNOWLEDGEMENTS

Acknowledgement and thanks go to additional reference points across our Industry Partners – Australia Post, Australasian Paper Industry Association, PrintNZ and Visual Connections.

Acknowledgement to The Association Board, Executive Committee and Members who have tirelessly worked to navigate through a difficult time for their own businesses and organisations but also provided time, support and contribution to the requirements of The Association Team, Membership and Industry.

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William Buck, 2021

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