KING&WOOD MALLESONS
金杜律师事务所

Australian Federal Budget

2020-2021

Introduction

The Government's 2020-21 Budget presents a historically big spending approach to deal with the unique set of problems arising from COVID-19 - a struggling global and domestic economy, weak business and consumer confidence, rising unemployment and continuing lockdowns. It is betting a strong stimulus will kick-start a consumer and business led spending recovery that will be the drivers for economic growth.

With large Budget deficits now an accepted measure to deal with the economic crisis, the Government has introduced a new phase to the economic response with a raft of revenue and expenditure measures to boost economic activity and job creation. Revenue measures include the bringing forward of personal tax cuts and significant concessions for business such as a 100% write-off for new plant and equipment, carry back of tax losses and R&D incentives, all which have the potential to provide short term tax relief and incentives. They also represent a marked departure from prior Budget measures where there was often a significant lag time before the economic effect was realised. The benefits of expenditure measures such as the large spend on infrastructure, wage subsidies and skills packages in key industry sectors should start flowing through to business over the next 12 months, which the Government hopes will help them stay afloat through the worst of the economic downturn.

The challenge for the Government will be whether the measures will give business and consumers sufficient confidence to spend, and more importantly invest for future growth and employment, and how long the measures can be kept in place to provide the much-needed economic stability. A question mark remains whether this will be enough to steady the economy or whether further policy reform be needed?

As a trading nation, how well Australia weathers the storm may ultimately depend on the recovery of global economies and the finding of a solution to COVID. However, the Government has used every resource at its disposal to make it easier for business to survive to the post-COVID era and generate job growth.

All Budget 2020-21 documents are available to download from the Treasury's Budget 2020 -21 website.

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1. Corporate Tax

The Government has introduced a range of corporate tax measures that are focused on providing tax relief for businesses, with the aim of improving cash flows and, ultimately, creating jobs.

Temporary loss carry-back tax offset

The Government has reintroduced loss carry-back provisions. These seek to will promote economic recovery by providing cash flow support to previously profitable companies that have fallen into a tax loss position as a result of the currently weaker economic conditions (themselves associated with the economic impact of COVID-19) until they become profitable again. A tax offset was previously introduced by the Labor Government in Australia for the 2012–13 income year but was later repealed in 2014.

Currently, companies are required to carry losses forward to offset profits in future years. Under the new measures, the Government will allow corporate tax entities with an aggregated turnover of less than $5 billion to carry back tax losses from the 2019-20, 2020-21 or 2021-22 income years to offset previously taxed profits in 2018-19 or later income years, thus generating a refundable tax offset in the year in which the loss is made. Essentially, the loss carry-back provisions permit a company to apply current-year tax losses to recover tax paid in prior years. Any tax refund will be limited by requiring that the amount carried back is not more than the earlier taxed profits and that the carry back does not generate a franking account deficit.

The tax refund will be available on election by eligible businesses when they lodge their 2020-21 and 2021-22 tax returns. Companies that do not elect to carry back losses under this measure can still carry losses forward as per the usual rules.

The introduction of loss carry-back rules is consistent with the approach adopted by other countries. New Zealand recently introduced a temporary loss carry-back scheme in light of the COVID-19 pandemic, with other countries such as the United States and the United Kingdom also allowing once-profitable businesses to use current losses to offset profits made the year before.

Temporary full expensing to support investment and jobs

The Government will support businesses with aggregated annual turnover of less than $5 billion by enabling them to deduct the full cost of eligible capital assets acquired from 7:30pm AEDT on 6 October 2020 and first used or installed by 30 June 2022. It will be available to around 3.5 million businesses (over 99% of businesses) that employ around 11.5 million workers. The incentive will apply to around $200 billion worth of investment, including 80% of investment in depreciable assets by non-mining businesses.

Full expensing in the year of first use or installation ready for use will apply to new depreciable assets and the cost of improvements to existing eligible assets.

For businesses with aggregated annual turnover of less than $50 million, full expensing also applies to second-hand assets.

Businesses with aggregated annual turnover between $50 million and $500 million 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 also have an extra six months, until 30 June 2021, to first use or install those assets.

Small businesses (with aggregated annual turnover of less than $10 million) can deduct the balance of their simplified depreciation pool at the end of the income year while full expensing applies. The provisions which prevent small businesses from re-entering the simplified depreciation regime for five years if they opt-out will continue to be suspended.

This full expensing builds on the enhanced instant asset write-off and the accelerated depreciation previously announced under the Backing Business Investment incentive. It is intended to improve cash flow for qualifying businesses that purchase eligible assets and bring forward new investment by reducing the after-tax cost of eligible assets. In particular, it creates an incentive for businesses to bring forward investment before it expires.

R&D tax breaks

The Government will enhance previously announced reforms to the Research and Development (**R&D**) tax incentive to support greater R&D in Australia and to help businesses manage the economic impacts of the COVID-19 pandemic.

For companies with aggregated annual turnover of less than $20 million, the Government will increase the refundable R&D tax offset to 18.5% above the claimant's company tax rate. The Government will also not proceed with the $4 million cap on annual cash refunds.

For companies with aggregated annual turnover of $20 million or more, the Government will:

- reduce the number of intensity tiers from three to two. This will provide greater certainty for R&D investment while still rewarding those companies that commit a greater proportion of their business expenditure to R&D; and
- increase the non-refundable R&D tax offset rates. The new rates will be the claimant's company tax rate plus 8.5% for R&D expenditure up to 2% R&D intensity, and the claimant's company tax rate plus 16.5% for R&D expenditure above 2% R&D intensity.

The Government will defer the start date so that all changes to the R&D program apply to income years starting on or after 1 July 2021.

All other aspects of the previously announced measures will remain unchanged, including the increase to the cap on eligible R&D expenditure from $100 million to $150 million per annum.

Retraining and reskilling workers

The Government will introduce an exemption from the 47% fringe benefits tax (**FBT**) for employer provided retraining and reskilling benefits provided to redundant, or soon to be redundant employees where the benefits may not be related to their current employment (such as employees who are to be redeployed to a different role in the business). This measure applies from 2 October 2020.

Currently, FBT is payable if an employer provides training to redundant, or soon to be redundant, employees and that training does not have sufficient connection to their current employment. For example, a business would be liable to pay FBT if it provided web design training to a sales assistant, to help them take on an online marketing role. This measure will provide an FBT exemption for a broader range of retraining and reskilling benefits, incentivising employers to retrain redundant employees to prepare them for their next career.

The exemption will not extent to employer-provided retraining and does not extend to retraining programs acquired by way of a salary packaging arrangement. It will also not be available for Commonwealth-supported places at universities, which already receive a benefit, or extend to repayments towards Commonwealth student loans.

The Government will also consult on potential changes to allow an individual to deduct education and training expenses they incur themselves where the expense is not related to their current employment. Individuals can currently deduct education or training expenses they incur which are sufficiently related to their current employment. The current system may act as a disincentive for Australians to retrain and reskill to support their future employment and career. The Government will consult on potential changes to the current arrangements to determine whether deductions should also be targeted to future employment and skills needs.

2. International

There have been minimal changes in the international tax space, with the relevant changes focusing on reducing complexity and uncertainty as well as expanding the international tax treaty network.

Corporate residency

- Under changes announced to apply from 1 July 2021, a company incorporated offshore will be treated as an Australia tax resident where it has a 'significant economic connection to Australia'. This requirement will now be satisfied where both of the following are in Australia:
  - its core commercial activities; **and**
  - central management and control.
- The current test focuses on the location of an offshore company's central management and control only. The amendments clarify the corporate residency test to reflect the position prior to the 2016 High Court decision of *Bywater Investments Ltd v Federal Commissioner of Taxation*.

Tax treaty network

- The Government intends to modernise and expand its tax treaty network to eliminate double taxation, settle taxing rights between Australia and other countries and attract foreign investment and skilled workers.
- The specific details of this modernisation and expansion are yet to be detailed.

Exchange of Information Jurisdictions

- The jurisdictions that have information sharing agreements with Australia has been updated to include the Dominican Republic, Ecuador, El Salvador, Hong Kong, Jamaica, Kuwait, Morocco, North Macedonia and Serbia, and remove Kenya from the existing 122 jurisdictions on the list.
- Residents of listed jurisdictions are eligible to access the concessional managed investment trust withholding tax rate of 15% on certain distributions (instead of the general rate of 30%).

Hybrid Mismatch Rules

- The Government has amended Australia's hybrid mismatch rules to assist compliance with the rules, further details of these amendments can be found in our tax alert.

Revised Start Dates for Tax Measures

- As previously announced, the start date for the 2018-2019 Budget measure "Tax Integrity – removing the capital gains discount at the trust level for Managed Investment Trusts (MITs) and Attribution MITs" has been revised from 1 July 2020 to the income year commencing on or after three months after the date of Royal Assent of the relevant legislation. It is not yet clear when the draft legislation will be published.

3. JobKeeper and JobSeeker

No major changes were highlighted to the JobKeeper or JobSeeker programs, other than changes to the mutual obligation requirements for JobSeeker. Both programs will be reviewed on an ongoing basis.

JobKeeper

No new amendments to the JobKeeper program were announced in the Budget, with the Government expected to review the program on an ongoing basis (especially closer to its 28 March 2021 end date).

Overall, the JobKeeper program is now estimated to cost $101.3 billion over the forward estimates period, $15.6 billion more than was reported in the July 2020 Economic and Fiscal Update. This is due to:

- changing the employment reference date for assessing an employee's eligibility for the JobKeeper Payment from 1 March 2020 to 1 July 2020, with effect from 3 August 2020; and
- extending the JobKeeper program until 28 March 2021.

JobSeeker

In April 2020, the Government established a new time-limited Coronavirus Supplement to be paid at a non-income tested rate of $550 per fortnight. This is paid to both existing and new recipients of JobSeeker Payment, Youth Allowance, Parenting Payment, Austudy, ABSTUDY Living Allowance, Farm Household Allowance, Special Benefit, and recipients of the Department of Veterans' Affairs Education Schemes, Military Rehabilitation and Compensation Act Education and Training Scheme and Veterans' Children's Education Scheme.

As was previously announced, from 25 September 2020 this supplement changed to $250 per fortnight and will continue to 31 December 2020. The income free area will change to $300 per fortnight with a 60 cents taper for income earned above the income free area for JobSeeker Payment (except principal carer parents who have an income free area of $106 and a taper rate of 40 cents) and Youth Allowance (other) recipients.

Payment eligibility for the above programs has been relaxed on a temporary basis in response to the COVID-19 pandemic. However, from 25 September 2020, the following will change:

- the Assets test and Liquid Assets Waiting Period will be reinstated; and
- the partner income test taper will be further revised to 27 cents in the dollar above the partner income free area of $1,165 per fortnight (through to 31 December 2020).

Mutual obligation requirements were temporarily lifted on 24 March 2020 and then gradually reinstated from 9 June 2020 in line with the gradual removal of COVID-19 restrictions (apart from Victorian residents). Mutual obligations will be changed to give job seekers greater flexibility to count education and training toward their activity requirements.

The Government has previously indicated that it will review these measures on an ongoing basis through the COVID-19 pandemic and make necessary changes in response to situations that arise, as occurred in relation to the second wave in Victoria.

4. Infrastructure

Infrastructure spending has been a major focus of this Budget, with significant road and rail projects slated in all States and Territories totalling $14 billion over the next 4 years.

Key infrastructure spending

The Government is increasing total spending on its infrastructure pipeline by $10b from $100b to $110b over the next 10 years and significantly bringing forward infrastructure spending with a Covid-19 infrastructure package that will provide significant near-term investments in major road and rail projects, road safety and community infrastructure, including significant funding for short term “shovel ready” projects.

The key allocations for infrastructure are:

- $2 billion over three years for priority regional and urban transport infrastructure, on a “use-it-or-lose-it” basis, including $1 billion over three years for shovel ready priority projects and $500 million over two years for targeted road safety works;
- $2 billion over two years in 6 month tranches to deliver small scale road safety projects, on a “use-it-or-lose-it” basis;
- $2 billion over ten years for the development and delivery of priority water infrastructure investments;
- $2 billion for the National Water Infrastructure Development Fund, including an additional $162.5 million for the Wyangala Dam ($325.0 million in total) and $121.0 million for the Dungowan Dam ($242.0 million in total);
- $1 billion over ten years for the Local Roads and Community Infrastructure Program to support local councils;
- $2.7 billion for New South Wales, including $603m for the New England Highway Singleton Bypass and Bolivia Hill Upgrade, and an additional $491m for the Coffs Harbour Bypass;
- $1.1 billion for Victoria, including $528m for upgrades to the Shepparton and Warrnambool rail lines;
- $1.3 billion for Queensland, including $750m for Stage 1 of the Coomera Connector;
- $1.1 billion for Western Australia, including $227 million for METRONET — High Capacity Signalling and Morley Ellenbrook Line, and $87.5 million for Reid Highway Interchanges — West Swan Road, plus an additional $327.5m over 11 years for the Perth City Deal;
- $625 million for South Australia, including $200 million for the Hahndorf Township Improvements and Access Upgrade, and $136 million to progress the Main South Road Duplication Stage 2;
- $360 million for Tasmania, including $65 million for the Tasman Bridge Upgrade;
- $190 million for the Northern Territory, including $120 million for the Carpentaria Highway Upgrade, and $46.6 million for National Network Highway Upgrades; and
- $155 million for the Australian Capital Territory, including $87.5 million for the Molonglo River Bridge.

Australian Capital Territory

$155.3m will be provided for priority road and rail projects in the Australian Capital Territory, increasing the Government's total commitment to transport infrastructure to over $970m. This funding includes:

- $87.5m for the Molonglo River Bridge
- $50m for the Canberra — Southwest Corridor Upgrade package
- $15.3m for the Monaro Highway Upgrade package
- $2.5m for the Parkes Way Upgrade planning and design.

New South Wales

$2.7 billion will be poured into road and rail projects in New South Wales, increasing the Government's total commitment to transport infrastructure to over $39b. The funding includes:

- $603 million for the New England Highway - Singleton Bypass and Bolivia Hill Upgrade;
- $591.7 million for the Newell Highway Upgrade;
- $490.6 million for the Coffs Harbour Bypass;
- $360 million for the Newcastle Inner City Bypass, Rankin Park to Jesmond
- $150 million for grade separating road interfaces
- $120 million for the Prospect Highway Upgrade
- $94m for the Heathcote Road Upgrade, Hammondville to Voyager Point
- $60m for the M1 North Smart Motorway — ANZAC Bridge to Warringah Freeway
- $46.4m for the Mulgoa Road Upgrade.

Northern Territory

$189.5m will be provided for priority road projects in the Northern Territory, increasing the Government's total commitment to transport infrastructure to over $2.7b. This funding includes:

- $120m for the Carpentaria Highway Upgrade
- $46.6m for the Northern Territory National Network Highway Upgrades
- $22.9m for the Stuart Highway Upgrade at Coolalinga.

Queensland

$1.3b will be provided for priority road and rail projects in Queensland, increasing the Government's total commitment to transport infrastructure to over $28.5b. This funding includes:

- $750m for the Coomera Connector Stage 1 (Coomera to Nerang)
- $201.2m for the Bruce Highway
- $112m for the Centenary Bridge Upgrade
- $76m for the Riverway Drive Stage 2 (Allambie Lane — Dunlop Street)
- $50m for the Beams Road Open Level Crossing Upgrade
- $42.4m for the Mount Lindesay Highway Upgrade (Johanna Street to South Street)
- $38m for the Cooktown to Weipa Corridor Upgrade
- $17.2m for the Cairns to Northern Territory Border Upgrade
- $10m for the M1 Pacific Motorway Upgrade Program.

The Government will also bring forward $14.2m to accelerate existing transport infrastructure projects in Queensland, including:

- $10m for the Port of Brisbane further planning; and
- $4.2m for the Brisbane to Gold Coast Faster Rail Business Case.

South Australia

$625.2m will be provided for priority road and rail projects in South Australia, increasing the Government's total commitment to transport infrastructure to over $9.8b. This funding includes:

- $200m for the Hahndorf Township Improvements and Access Upgrade
- $136m for the Princes Highway Corridor
- $136m for the Main South Road Duplication Stage 2 - Aldinga to Sellicks Beach

- $100m for the Strzelecki Track Upgrade
- $28m for the South Eastern Freeway Safety Upgrade
- $13.2m for the Goodwood
- $12m for the Victor Harbor Road Upgrade.

The Government will also bring forward $20.3m to accelerate the Eyre Peninsula Network.

Victoria

$1.1b will be provided for priority road and rail projects in Victoria, increasing the Government's total commitment to transport infrastructure to over $31.5b. This funding includes:

- $320m for the Shepparton Rail Line Upgrade
- $292m for Barwon Heads Road
- $208m for the Warrnambool Rail Upgrade — Stage 2
- $104m for the McKoy Street — Hume Freeway Intersection Upgrade
- $84.5m for Hall Road
- $31m for Narre Warren North Road
- $30m for the Western Rail Plan
- $27.2m for the Western Port Highway
- $22.5m for South Road.

The Government will also bring forward $610m to accelerate existing transport infrastructure projects in Victoria, including:

- $605m for the South Geelong to Waurn Ponds Rail Upgrade — Stages 2 and 3
- $5.0m for the Outer Metropolitan Ring / E6 Corridor Preservation.

Western Australia

$1.1b will be provided for priority road and rail projects in Western Australia, increasing the Government's total commitment to transport infrastructure to over $15.4b. This funding includes:

- $227.1m for Metronet
- $87.5m for the Reid Highway Interchanges
- $80m for the Wheatbelt Secondary Freight Network
- $75m for the Canning Bridge Bus Interchange
- $70m for the Roe Highway Widening and Abernethy Road Upgrade
- $70m for the Newman to Katherine Corridor Upgrade
- $56m for the Karratha to Tom Price Corridor Upgrade
- $48.6m for the Kwinana and Mitchell Freeway
- $45m for the Stirling Bus Interchange
- $41.6m for the Port Augusta to Perth Corridor
- $40m for the Freight Vehicle Productivity Improvements Program
- $17.5m for the Bus Lane Program.

The Government will also bring forward $161.4m to accelerate existing transport infrastructure projects in Western Australia, including:

- $115.8m for the Roe Highway-Great Eastern Highway Bypass and Abernethy Road-Great Eastern Highway Bypass Interchanges
- $24m for the Freemantle Traffic Bridge (Swan River Crossing)

- $21.6m for the Wheatbelt Secondary Freight Network.

The Government will also provide $327.5m over 11 years from 2020-21 to support projects under the Perth City Deal to unlock economic benefits and opportunities for the central business district (CBD), deliver almost 10,000 jobs and encourage people back into the city creating flow on benefits for small businesses.

5. Environment

The Government has announced a wide range of funding for the environment, with key measures aimed at protecting Australia's oceans, preserving national parks and heritage areas, transforming the waste and recycling industry, and continuing wildlife and habitat restoration.

The key environmental initiatives in the Budget include:

- **Bureau of Meteorology — improved security and resilience:** The Government will provide $254.6 million over four years from 2020-21 to ensure the financial sustainability of the Bureau of Meteorology.
- **Commonwealth Implementation of Environmental Controls for Chemicals:** The Government will provide $29.1 million over six years from 2020-21 (including $5.1 million in 2024-25 and $5.4 million in 2025-26, and $4.9 million per year ongoing from 2026-27) to implement the National Standard for the Environment Risk Management of Industrial Chemicals in areas and activities under the jurisdiction of the Commonwealth.
- **Compensation Arising from the Brett Cattle Judgement:** Funding will be provided to settle compensation and legal costs associated with claims against the Commonwealth by businesses that suffered losses due to an order to suspend live cattle exports to Indonesia in 2011. The level of funding has not been disclosed.
- **COVID-19 Response Package — supporting the Great Barrier Reef tourism industry:** The Government will provide $11.6 million over three years from 2020-21 to the Great Barrier Reef Marine Park Authority to continue its management of the Great Barrier Reef whilst supporting local businesses in a region significantly impacted by the COVID-19 pandemic.
- **Drought Response, Resilience and Preparedness Plan — extended support:** $155.6 million will be granted over four years for a package of measures to support farmers and communities in drought.
- **Implementation of the Waste Export Ban:** The Government will provide $6.6 million over three years from 2020-21 to implement and administer the Commonwealth's commitment to ban the export of certain types of waste from 1 January 2021.
- **Improved Access to Agricultural and Veterinary Chemicals Program — extension:** The Government will provide $2.4 million over four years from 2020-21 to extend the Improved Access to Agricultural and Veterinary Chemicals program.
- **JobMaker Plan — busting congestion for agricultural exporters — improving the ease of doing business:** The Government will provide $328.4 million over four years from 2020-21 for a package of measures to improve the ease of doing business for agricultural exporters.
- **Maintaining the timeliness of the environmental assessment process:** $36.6 million will be provided over two years from 2020-21 to maintain the timeliness of environmental assessments and undertake further reforms under the Environment Protection and Biodiversity Conservation Act 1999.
- **Murray-Darling Communities Investment Package:** The Government will provide $269.6 million over four years from 2020-21 (and $9.8 million per year ongoing) for a package of measures to achieve a sustainable and certain future for the Murray-Darling Basin, its people, industries and environment, and in response to findings of the Independent Assessment of the Social and Economic conditions in the Murray-Darling Basin and the First Review of the Water for the Environment Special Account.
- **Supporting Healthy Oceans:** The Government will provide $47.4 million over four years from 2020-21 (and $7.8 million per year ongoing) to support the health and management of Australia's oceans.
- **Sydney Harbour Federation Trust — infrastructure improvements:** $40.6 million will be provided over four years from 2020-21 to the Sydney Harbour Federation Trust to improve the public amenity of various sites under its management and respond to recommendations from the Independent Review of the Sydney Harbour Federation Trust. Funding will allow for the renewal and repair of heritage-listed infrastructure, public safety improvements and master planning for Cockatoo Island and North Head Sanctuary.
- **State environment projects:** In 2020–21, the Government will provide funding of $844.1 million to support state environment projects. This includes $59.7 million for the Recycling Infrastructure funding agreement.

6. Tax Compliance

The Government has announced changes to the record keeping standards for fringe benefit tax **(FBT)** returns.

Fringe Benefits Tax – reducing the compliance burden of record keeping

The Government has announced that it will provide the Commissioner of Taxation with the power to allow employers to rely on existing corporate records, rather than employee declarations and other prescribed records, to finalise their FBT returns. The measure is expected to have effect from the FBT year beginning 1 April 2021.

Currently, the FBT legislation requires that certain records must take a particular form in order to be valid. This imposes compliance burdens and costs on employers and, in some cases, employees.

The Budgetary measure will allow employers — with what the Commissioner determines as adequate alternative records — to rely on existing corporate records, removing the need to complete and create additional materials.

7. Small Business

The amendment of the small business entity turnover threshold from $10 million to $50 million will see 10 small business tax concessions extended to medium-sized businesses. This is in addition to a number of fringe benefits tax changes and COVID-19 measures specifically tailored towards small businesses.

Increase the small business entity turnover threshold to medium-sized businesses

The Government will expand access to a range of small business tax concessions by increasing the small business entity turnover threshold for these concessions from $10 million to $50 million.

Businesses with an aggregated annual turnover of $10 million or more but less than $50 million will for the first time have access to up to ten further small business tax concessions in three phases:

- **From 1 July 2020**: eligible businesses will be able to immediately deduct certain start-up expenses and certain prepaid expenditure.
- **From 1 April 2021**: eligible businesses will be exempt from the 47 per cent fringe benefits tax on car parking and multiple work-related portable electronic devices (such as phones or laptops) provided to employees.
- **From 1 July 2021:** eligible businesses will be able to access the simplified trading stock rules, remit pay as you go (PAYG) instalments based on GDP adjusted notional tax, and settle excise duty and excise-equivalent customs duty monthly on eligible goods under the small business entity concession. Eligible businesses will also have a two-year amendment period apply to income tax assessments for income years starting from 1 July 2021, excluding entities that have significant international tax dealings or particularly complex affairs.

The eligibility turnover thresholds for other small business tax concessions (including the small business CGT concession) will remain at their current levels.

Boosting cash flow for small and medium businesses

As previously announced, the Government is providing tax-free cash flow boosts of between $20,000 and $100,000 to eligible small and medium businesses and not-for-profit organisations that employ individuals. Eligible entities automatically receive payments upon lodgement of relevant activity statements for the March to September 2020 reporting periods. This will support the connection between employers and employees and help entities continue to operate through the economic downturn associated with COVID-19.

Making Victoria's COVID-19 business support grants non-assessable, non-exempt income

The Government will make the Victorian Government’s business support grants for small and medium business as announced on 13 September 2020 non-assessable, non-exempt (NANE) income for income tax purposes.

The Commonwealth will extend this arrangement to all States and Territories on an application basis. Eligibility would be restricted to future grants program announcements for small and medium businesses facing similar circumstances to Victorian businesses.

8. Personal Tax

The Budget has brought forward the Government's Personal Income Tax Plan, implementing further personal tax cuts for low to middle income earners. The Government also announced measures exempting granny flat arrangements from capital gains tax, tax exempt treatment for recipients of disaster recovery and volunteer firefighter payments, as well as an increase to the Medicare Levy for low-income thresholds for singles, families, seniors and pensioners.

Bringing forward the Personal Income Tax Plan

The Government will bring forward the second stage of its Personal Income Tax Plan by two years to 1 July 2020. As a result:

- The top threshold of the 19% personal income tax bracket will increase from $37,000 to $45,000;
- The low income tax offset (LITO) will increase from $445 to $700. The increased LITO will be withdrawn at a rate of 5 cents per dollar between taxable incomes of $37,500 and $45,000. The LITO will then be withdrawn at a rate of 1.5 cents per dollar between taxable incomes of $45,000 and $66,667; and
- The top threshold of the 32.5% personal income tax bracket will increase from $90,000 to $120,000.

These changes will reduce the amount of tax withheld through pay-as-you-go withholding obligations, which means that the tax relief will flow faster to individuals in their regular pay packets.

Stage 3 of the Personal Income Tax Plan remains unchanged and will commence in 2024-25 as legislated.

Retaining the low and middle income tax offset (LMITO)

The Government will retain the LMITO for the 2020-21 income year, providing further targeted tax relief for low- and middle-income earners.

The LMITO provides a reduction in tax of up to $1,080. It provides a reduction in tax of up to $255 for taxpayers with a taxable income of $37,000 or less. Between taxable incomes of $37,000 and $48,000, the value of the offset increases at a rate of 7.5 cents per dollar to the maximum offset of $1,080. Taxpayers with taxable incomes between $48,000 and $90,000 are eligible for the maximum offset of $1,080. For taxable incomes of $90,000 to $126,000, the LMITO phases out at a rate of 3 cents per dollar. Consistent with current arrangements, the LMITO will be received on assessment after individuals lodge their tax returns for the 2020-21 income year.

Exempting granny flat arrangements from capital gains tax (CGT)

The Government will provide a targeted CGT exemption for granny flat arrangements. Under the measure, CGT will not apply to the creation, variation or termination of a formal written granny flat arrangement providing accommodation for older Australians or people with disabilities. This change will only apply to agreements that are entered into because of family relationships or other personal ties and will not apply to commercial rental arrangements.

The measure will commence as early as 1 July 2021, subject to the passing of legislation.

Tax treatment of disaster recovery and volunteer firefighter payments

The Government has made relief and recovery payments and benefits, as well as support payments to volunteer firefighters, provided by Australian governments in relation to the 2019-20 bushfires free from tax. The measure applies to the 2019-20 income year and later income years.

This measure ensures relief and recovery payments made by the Commonwealth, state, territory and local governments for the purpose of providing relief or assisting in the recovery efforts of entities and individuals affected by the 2019-20 bushfires are free from income tax. Examples of payments covered by this measure include the Disaster Recovery Allowance and payments made by state and territory governments under the Disaster Recovery Funding Arrangements.

Additionally, it ensures the payments made to eligible volunteer firefighters, to compensate them for loss of income as a result of volunteering, are free from tax.

Medicare Levy

The Government has increased the Medicare levy low-income thresholds for singles, families, and seniors and pensioners from the 2019-20 income year. The increases take account of recent movements in the consumer price index so that low-income taxpayers generally continue to be exempted from paying the Medicare levy.

The changes to the Medicare Levy will operate as follows:

- The threshold for singles has increased from $22,398 to $22,801;
- The family threshold has increased from $37,794 to $38,474;
- For single seniors and pensioners, the threshold has increased from $35,418 to $36,056;
- The family threshold for seniors and pensioners has increased from $49,304 to $50,191; and
- For each dependent child or student, the family income thresholds increase by a further $3,533, instead of the previous amount of $3,471.

9. Superannuation & Aged Care

The Government has not made a change to the legislated increase to the superannuation guarantee. Instead, the much-awaited Government response to the Productivity Commission review and Royal Commission recommendations has been announced resulting in a focus on efficiency, competition and accountability. There is significant spending on aged care.

No change to superannuation guarantee

- There was no change to the legislated increase to the superannuation guarantee, which remains set to rise from 9.5 per cent to 12 per cent, with the first increase of 0.5 per cent due in July 2021.

APRA underperformance assessments

- There will be a new annual (investment) performance assessment for MySuper products and trustee-directed products (ie those products and options where the trustee has control over the investment strategy which covers more than one asset class). The first assessment is to be completed by APRA in September 2021. The assessments will be based on APRA's 'heat map' methodology.
- A fund which underperforms for one year must notify members. A fund which underperforms for two consecutive years will be prohibited from receiving new members until it ceases to be underperforming.

Stapling super accounts to employees and new transparency measures

- From 1 July 2021, there will be a new measure designed to reduce duplication of accounts involving the "stapling" of an existing super account to an employee, so that the account automatically follows the employee to a new employer. Of course, any product that the employee's account is transferred to on cessation of employment must pass the underperformance test. The Government also anticipates improving payroll software to support the stapling of accounts.
- An Australian Taxation Office tool will be introduced to help new employees to compare superannuation products.

Higher best interest standards for superannuation trustees

- The Government will clarify that from 1 July 2021 the best interests test applies to members' financial interests. Trustees will also be required to establish that there was a reasonable basis to support their actions being consistent with members' best financial interests.

Changes to ERF rules

- The Government will defer by 12 months the start date of the measure that prevents superannuation funds transferred amounts to ERFs.
- The Government will also allow all superannuation funds to voluntarily transfer amounts to the ATO where the trustee believes it to be in the best interests of members and the amount would otherwise have been transferred to an ERF.

Extension of early access application period

- The Government has extended the application period for the $10,000 drawdown amount in 2020-2021 to 31 December 2020.

Spending on aged care

- $1.6 billion is allocated across four years from 2020-2021 to the release of an additional 23,000 home care places.
- In response to the COVID-19 pandemic, there is $245 million for the supplement to Commonwealth-funded providers, the viability supplement and the residential care homeless supplement; $205.1 million for the extension of the Aged Care Workforce Retention Bonus Payment; $81 million for an additional surge workforce and increased training for aged care workers; and a number of other measures.
- The Government will also spend in response to issues raised at the Royal Commission into Quality and Safety in Aged Care, including $29.8 million for a Serious Incident Response Scheme and $11.3 million for specialist counselling teams.

Other significant spending includes $125.3 million to replace the Commonwealth Continuity of Support Programme to ensure support for older Australians with a disability; $91.6 million to continue to implement the Australian National Aged Care Classification system; and $35.6 million for the Business Improvement Fund.

10. The Digital Economy

Given the extraordinary challenges posed by COVID-19, Australian businesses have had to quickly adapt to a digital economy and remote working. Despite some early hiccups, the transition has been very successful for many and Australia appears set to herald a new age in flexible, online working. The government is keen to support this digitisation of business activity, stating that it is its goal "for Australia to be a leading digital economy by 2030".

Digital Business Plan

To reflect the Government's renewed digitisation initiative, the Budget allocates $796.5 million to a new four-year Digital Business Plan as part of the JobMaker Plan. The Digital Business Plan has the following four pillars:

- Modern digital infrastructure;
- Reduced regulatory barriers;
- Small and medium enterprise support and capability; and
- A digital government that is easier to do business with.

$22.1 million has been allocated to establish the Australian 5G Innovation Initiative, and $7.2 million has been allocated to support the accelerated deployment of 5G infrastructure. New investments of $4.5 billion are proposed to be made in the NBN, funded by private debt markets.

Further amounts are allocated to the implementation of the Consumer Data Right (which will give consumers greater access to, and control over, their data), streamlining of Government administration and simplified regulatory compliance, support for fintech start-ups and work into the application of blockchain tech to reduce regulatory compliance.

Notably and very helpfully for many, reforms will be made to the Corporations Act 2001 (Cth) to allow meetings to be held with virtual attendance and to provide certainty that company officers can electronically execute a document. This will likely piggyback off changes quickly passed earlier this year in various States and at the Commonwealth level to allow for electronic signatures and remote witnessing.

SME digital capability will be supported with $19.2 million in funds allocated to expand the Australian Small Business Advisory Services – Digital Solutions program, $3 million to develop a Digital Readiness Tool for businesses, and $2.5 million to support a Digital Skills Finder Platform to help workers and SMEs find digital skills training courses.

The Government is also making significant efforts to update its technology, with $419.9 million allocated to transfer existing business registers to a modernised platform, $256.6 million to expand "Digital Identity" to improve access to government services and payments online, and smaller amounts to adopt e-invoicing across government and to review the governance and regulation of Australia's domestic payments system.

Other measures

Separately to the Digital Business Plan, the Government will:

- establish the Australian Broadband Advisory Council to assist in maximising the economic benefits of increased digital connectivity for Australian businesses and consumers;
- allocate money to help older Australians increase their digital literacy; and
- fund the continued operation of the Australian Digital Health Agency.

11. Energy

The Budget has some significant outcomes for the energy industry, with the Government looking to improving energy affordability and reliability whilst also directing resources to measures aimed at reducing emissions and increasing productivity

Investments in new energy technologies

The Government will provide $1.9 billion over 12 years from 2020-21 to continue funding the Australian Renewable Energy Agency (**ARENA**), expand the investment mandate of the Clean Energy Finance Corporation (**CEFC**) and invest in low emissions technologies, network infrastructure, dispatchable generation and reliable supplies in the National Electricity Market (**NEM**). Some of these measures include:

- $95.4 million over six years from 2020-21 (including $76.4 million over four years to 2023-24) to create a co-investment fund that supports industrial, freight and agricultural businesses to identify and adopt technologies to reduce emissions and increase productivity;
- $74.5 million over four years from 2020-21 to create the Future Fuels Fund, which would enable businesses to integrate new vehicle technologies, perform integration analysis and develop improved information on electric vehicles and charging infrastructure;
- $67.1 million over six years from 2020-21 (including $53.9 million over four years to 2023-24) to expand the *Regional and Remote Communities Reliability Fund* to support pilot studies for microgrids in regional and remote areas; and
- $1.4 billion over 12 years from 2020-21 (including $223.9 million over four years to 2023-24) to continue funding ARENA to provide research and development investment for emerging low emission technologies to increase their commercial readiness.

Investments in other energy initiatives

The Government will provide:

- $10.0 million over four years from 2020-21 to support industry-led collaborative research projects through the *Cooperative Research Centres Projects* program to develop innovative solutions for recycling and reuse of plastics, paper, tyres and other problematic materials and hard-to-recycle waste; and
- $52.9 million over four years from 2020-21 to support a gas-fired recovery and strengthen the economy by taking steps to unlock gas supply, deliver an efficient pipeline and transportation market, and empower gas customers.

Improving energy affordability and reliability

The Government will provide up to $134.7 million over four years from 2020-21 to support investment in dispatchable generation and reliable energy supplies in the NEM and the Wholesale Energy Market in Western Australia. Some of these measures include:

- loan funding to progress the delivery of the design and approval phase of the Marinus Link project (a second transmission interconnector between Victoria and Tasmania) to enable a financial investment decision by 2024;
- funding for the South West Interconnected System Big Battery Project in Western Australia; and
- upgrades to Delta Electricity's Vales Point Power Station to reduce emissions, improve reliability and provide additional dispatchable generation in New South Wales.

The Government will also invest $250.7 million over 10 years from 2020-21 to hold a sovereign refining capability and increase our domestic storage capabilities to secure Australia's liquid fuel security.

12. Manufacturing & Logistics

As announced before the Budget, the Government has committed to a "Modern Manufacturing Strategy" designed to assist Australian manufacturers in identified priority areas and to address key supply chain concerns highlighted by COVID-19. There is also targeted support in respect of logistics.

As part of the Government's JobMaker initiative designed to grow the availability of jobs, funding is expected to be focused on projects that will lead to greater manufacturing scale, job growth and/or the upskilling of existing employees.

Modern Manufacturing Initiative

- The headline initiative of the strategy, the Government has committed $1.3 billion in co-funding to manufacturing initiatives beginning in the first half of 2021 and spread over annual funding rounds for the next four years.
- It will be based around the following six identified "National Manufacturing Priorities":

Resources technology and critical minerals processing	Food and beverages	Medical products
Recycling and clean energy	Defence	Space

- Organised into three streams of funding support, the Government will co-invest to provide funding:
  - for very large projects that support business-to-business or business-to-research collaboration that will build economies of scale, with grants up to 1/3rd of the eligible costs (Manufacturing Collaboration Scheme);
  - for manufacturers to commercialise ideas, with grants of up to 50% of the eligible costs (Manufacturing Translation Scheme); and
  - for manufacturers to integrate into local and international supply chains and markets (Manufacturing Integration Scheme), with grants of up to 50% of the eligible costs.

Supply Chain Resilience Initiative

- The Government has proposed to issue a set of Sovereign Manufacturing Capability Plans that will identify vulnerabilities in Australia's domestic and international supply chains, starting with health and medical products (and possibly also food and food services and chemical and plastics) and extending to other sectors.
- From 1 July 2021, projects will then be able to apply for a share of $107.2m in funding over 4 years where they address an identified supply chain vulnerability

Manufacturing Modernisation Fund

- Designed to address barriers to growth and innovation, round two of the Manufacturing Modernisation Fund will provide $52.8 million in funding to projects aligning with the National Manufacturing Priorities.
- Also provided on a co-funding basis, it will provide grants of between $300k and $1 million on a 3-to-1 funding basis for transformative investments in technologies and processes.

Advanced Manufacturing Growth Centre Industry Growth Centres

- The Government also announced an additional $50 million to support the existing Advanced Manufacturing Growth Centre in the 2021 financial year, and a further $20m to existing Industry Growth Centres for 2021-2022 in Advanced Manufacturing; Cyber Security; Food and Agribusiness; Medical Technologies and Pharmaceuticals; Mining Equipment, Technology and Services; and Oil, Gas and Energy Resources.
- Funding of initiatives within these centres will need to align with the National Manufacturing Priorities.

Further details are available from the Modern Manufacturing Strategy website.

Logistics

- Continuing the International Freight Assistance Mechanism until 30 June 2021, to ensure key freight linkages (particularly overseas) remain available.
- Further unspecified investment in the Australian Rail Track Corporation to deliver the Inland Rail project.

Significant investments in infrastructure upgrades (as outlined in section Infrastructure).

13. Restructuring & Insolvency

The Budget reaffirmed the Government's commitment to implementing reforms to support consumers and businesses affected by COVID-19.

The Government confirmed the implementation of a number of measures designed to reduce the regulatory burden to ensure a timely flow of credit and resolution for distressed business. These include:

- introducing a new process to enable eligible incorporated small businesses in financial distress to restructure their own affairs, drawing on some key features of the Chapter 11 bankruptcy model in the United States;
- simplifying the liquidation process for eligible incorporated small businesses to allow faster and lower cost liquidation; and

support for the insolvency sector to enhance the capacity of the insolvency system to assist small businesses and manage the anticipated increase in the number of insolvencies, including the temporary waiver of registration fees associated with registration as a registered liquidator for approximately 2 years until 30 June 2022

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