GILBERT +TOBIN

FEDERAL BUDGET 2021-22

MAY 2021

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1 FEDERAL BUDGET 2021-22

Whereas last year's Budget was "unprecedented", this year's 2021-22 Federal Budget is "predictable" in its stated aim of "securing Australia's recovery". Weeks of leaked measures also help that predictability and takes the old school bang out of the Budget – it is a wonder we have a Budget night anymore!

Budget surpluses are now no longer the target. Instead, driving down unemployment and increasing spending in the public and the private sectors are the "new normal" goals. In pursuit of these goals, the Budget reverses years of neglect of various sectors of society, such as the elderly and socially disadvantaged. There is also a splash of cash for new areas, such as on women's safety and economic security. We will have to see whether the impact of these collective measures will have the desired effect and lead to the reduction in unemployment and wage growth (and resulting inflation) that the Reserve Bank and the broader community is looking for.

Most industries and taxpayers will benefit from the Budget's measures. However, genuine structural tax reform is again missing, with economists already questioning the adequacy of measures.

Nonetheless, with a healthy population and a largely open economy, Australia has a great springboard to meet the future. It is a shame the Budget does not do more to promote Australia's longer term policy objectives.

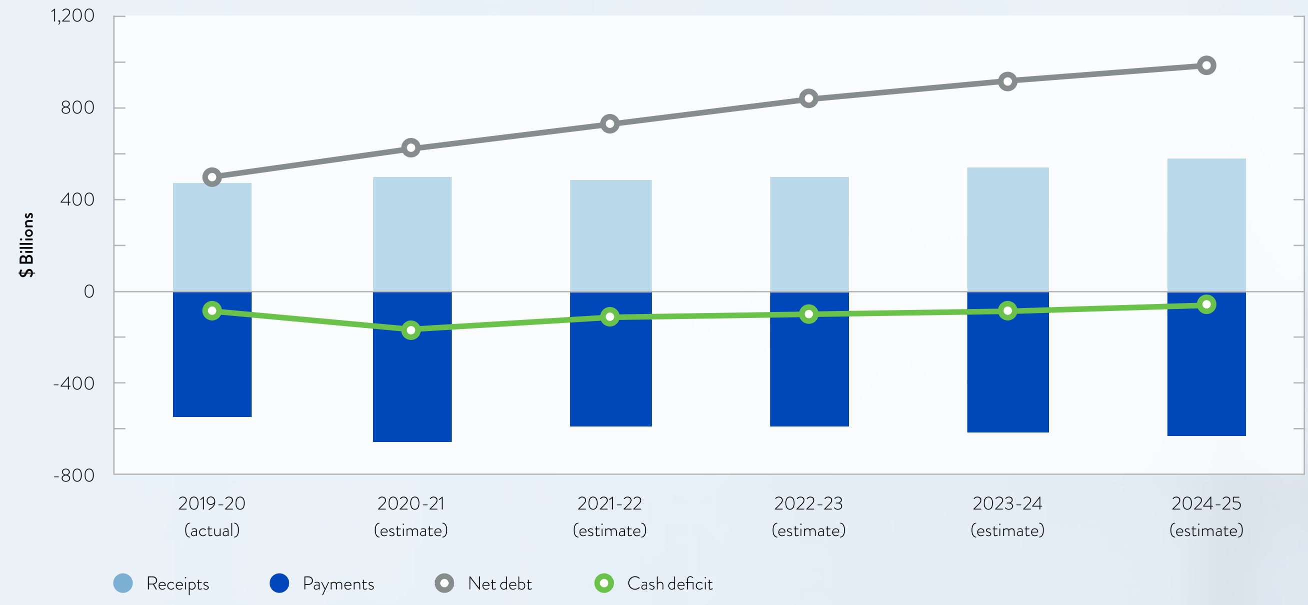
2 HIGHLIGHTS

2.1 GETTING BACK ON TRACK

Despite the forecasts of disaster during the early stages of COVID, a healthy population and a largely open economy provide a sound basis for recovering from the first recession in 30 years.

The Budget forecasts that the deficit will nearly halve over the next four years (but not before increasing further), with net debt peaking at $980.6 billion in 2024-25.

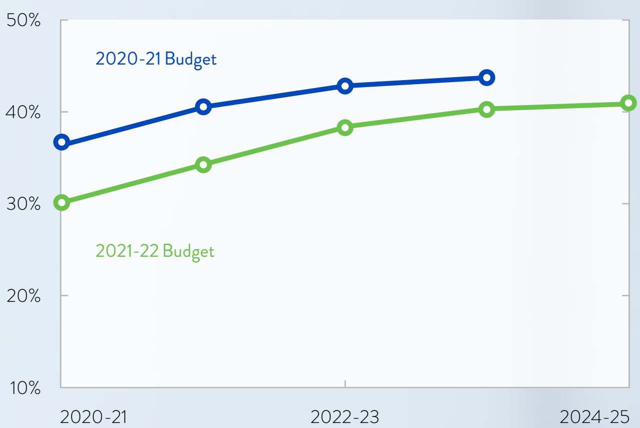
FORECAST KEY MEASURES



The unemployment rate is forecast to reduce from 6.9% in 2019-20 to just 4.5% in 2024-25. However, only a marginal increase in the wage price index is expected over that time, from 1.8 to 2.75. This keeps the consumer price index (CPI) largely static. The Reserve Bank has already flagged wage growth as important to achieving CPI increases to an acceptable level.

UNEMPLOYMENT RATE

NET DEBT



2.2 KEY MEASURES

Low and middle income tax offset (LMITO) extended for one more year

Described as a $7.8 billion "tax cut", the extension of the LMITO ensures there is no increase in effective tax for low and middle income earners in the next year. This is an important and welcome measure in ensuring low and middle income earners are not adversely affected while we are still grappling with COVID.

Business tax relief

While more could have been done, business tax measures include extending the temporary full expensing and loss carry-back rules for one more year. Some past measures are included within this category, including the reduction in the small and medium company tax rate to 25% from 1 July 2021, the half-price airfares to support the tourism sector and supporting international education providers through fee relief and exemptions. Other measures previously announced that receive ongoing support include HomeBuilder, New Home Guarantee, the Family Home Guarantee and the First Home Super Saver Scheme.

Infrastructure spending increased

With a headline infrastructure pipeline of $110 billion over 10 years, an additional $15.2 billion has been committed over the next 10 years with projects throughout the country.

Focus on essential services

Redressing some neglect in the past, the Budget commits to spending big on COVID responses, supporting people with disabilities, aged care reforms and mental health.

Women

While some of these measures are likely to be ineffective, there is welcome focus on addressing physical and economic security of women in this Budget.

3 EMPLOYMENT MEASURES

The Budget proposes a number of measures to attract and incentivise employees, particularly from overseas (presumably, once borders are open, currently expected to occur in July 2022), as well as increasing workforce participation.

3.1 TAXING POINT ON CESSATION OF EMPLOYMENT

Employee share schemes (ESS) are an important tool in attracting and incentivising employees. Recent reforms in this area have helped startups and reversed the adverse effects of prior changes for tax-deferred schemes.

One of the taxing points for tax-deferred schemes is when an employee leaves the employer. Employees are often forced to sell their securities to fund the tax liability. Although there is a ready market for shares in listed employers, this is not easy to do with unlisted employers or where the employees hold options. Even with shares in listed companies, share prices can move against an employee, causing the employee to have to sell more shares to fund a tax liability calculated on a high share value.

In one of its better technical measures, the Budget proposes to remove the cessation of employment as a taxing point. This change will be effective from the first income year after the date of Royal Assent.

The measures could result in an increased administrative burden, requiring former employers to keep track of former employees in order to comply with requirements such as providing those former employees with ESS statements. Further details are needed on how this measure will operate in practice.

3.2 MAKING ESS EASIER TO ISSUE

The requirements of Australia's corporate law often hinders the ability to offer ESS. The Budget proposes:

+ removing these regulatory requirements for ESS, where employers do not charge or lend to the employees to whom they offer ESS (although we note the law already provides relief in such circumstances); and
+ where employers do charge or lend, streamlining requirements for unlisted companies making ESS offers that are valued at up to $30,000 per employee per year (up from $5,000).

We need to see the detail but, on the face of it, this is a very positive development for many employers of various sizes and has the potential to remove red tape.

3.3 MIGRATION VISAS

Recognising the skills shortages caused by measures taken during COVID and the continuing closed international border, the Budget proposes various measures around migration and visas. The most relevant is the removal of the requirement for applicants for the Temporary Activity visa (subclass 408) to demonstrate their attempts to depart Australia if they intend to undertake agricultural work. The period in which a temporary visa holder can apply for a Temporary Activity visa has been extended to 90 days prior to visa expiry.

3.4 INCREASING WORKFORCE PARTICIPATION

As part of its employment funding, the Budget will provide $258.6 million over four years from 2020-21 for job seekers to encourage increased participation in the workforce by focusing on upskilling workers and facilitating employment opportunities, especially in light of the impact of COVID on the job market. This package includes:

$213.5 million

over four years to expand the Local Jobs Program, which provides for reskilling and upskilling workers in selected regions;

$15.6 million

to incentivise employers to hire disadvantaged job seekers by increasing all wage subsidies to $10,000 for eligible participants in jobactive, Transition to Work, and ParentsNext;

$15.5 million

over two years to encourage small business startups by providing an additional 1,000 places under the New Business Assistance with New Enterprise Incentive Scheme program and an additional 350 places under the Exploring Being My Own Boss Workshop program;

$7.9 million

over three years to incentivise employment services providers to ensure job seekers referred from Online Employment Services before 30 June 2022 are appropriately supported into employment as quickly as possible;

$6.2 million

over two years to deliver more Jobs Fairs across the country between June 2021 and June 2022; and

$1.6 million

over two years to amend the Relocation Assistance to Take Up a Job program to provide additional support for job seekers relocating to take up employment, including short term agricultural work under AgMove.

4 INFRASTRUCTURE AND TRANSPORT

Significant investment in infrastructure continues to be one of the key initiatives underpinning the Government's economic recovery plan.

4.1 THE 10-YEAR INFRASTRUCTURE PIPELINE

In last October's federal budget, the Government committed to a significant infrastructure spend of $110 billion over 10 years with a focus on near-term investments in major road and rail projects, road safety and community infrastructure (a $10 billion increase on the commitments in the previous budget). The Government, as part of the 2021-22 Budget has proposed an additional $15 billion of infrastructure funding for a range of predominantly road and rail projects across all states and territories, which will support an estimated 30,000 jobs.

Victoria: $3 billion +

Including for a new Melbourne intermodal terminal and extra funding for the Pakenham and Monash roads upgrades

New South Wales: $3.3 billion

Including for construction of the Katoomba-Lithgow section of the Great Western Highway and upgrades to the Princes Highway in the Illawarra and Jervis Bay

South Australia: $3.2 billion

Including funding for the north-south corridor and the Truro bypass

Queensland: $1.6 billion

Including to upgrade the inland freight route between Mungindi and Charters Towers for the Gold Coast light rail, and Bruce Highway upgrades

Western Australia: $1.3 billion

Including for extensions to Metronet rail and upgrades to the Great Eastern Highway and Reid Highway

Northern Territory: $323.9 million

For NT roads and highway upgrades

Tasmania: $319.1 million

Including for upgrades to the Midlands Highway and safety on the Bass Highway

Australian Capital Territory: $167.3 million

Including for a range of priority road and rail projects including Stage 2A of the Canberra Light Rail, the duplication of William Hovell Drive and Gundaroo Drive, and upgrades to Beltana Road in Pialligo

Newcastle, NSW: $66 million

To widen the Newcastle Airport runway

4.2 ROAD SAFETY

To improve road safety, the Government will provide an additional $1 billion in 2022-23 for the Road Safety Program. Small-scale road safety projects such as road widening will be identified and delivered by jurisdictions in 6 month tranches to improve safety on Australian roads and will also stimulate local economies.

4.3 LOCAL JOBS AND INFRASTRUCTURE

The Government will provide an additional $1 billion over 2 years from 2021-22 to extend the Local Roads and Community Infrastructure Program. This will support local councils to maintain and deliver social infrastructure, improve road safety and bolster and support around 3,500 jobs.

Small capital projects for the benefit of local communities will also receive funding of $28.2 million.

4.4 THE NATIONAL WATER GRID

With a view to supporting primary industries, increasing water security and stimulating regional economies, the Government will provide up to $160 million over 2 years from 2021-22 to establish the National Water Grid Connections funding pathway to deliver small scale water infrastructure projects and provide short-term economic stimulus.

The Government will also provide $98 million over 3 years for a range of National Water Grid projects including Eurobodalla Southern Storage in New South Wales and the Werribee Irrigation District Modernisation.

4.5 SUPPORTING REGIONAL AUSTRALIA

In support of regional Australia, the Government has committed to provide $348 million of funding over 4 years from 2021-22 including:

+ To the Building Better Regions Fund to support investment in community infrastructure and capacity building projects in regional areas;
+ To support the delivery of reliable, affordable and innovative digital services and technologies in regional and remote Australia; and
+ To assist community organisations and small enterprises in regional Australia to recover from the impacts of COVID.

A further initiative is Government support to undertake an independent study to identify the regulatory barriers to business relocation into regional Australia.

Regional Australia will also benefit under a range of other Government initiatives as follows:

+ As part of the Government's digital economy strategy, funding of $12 million over 5 years from 2021-22 to deliver co-funded grants to support community and business driven projects that build artificial intelligence (AI) capabilities in regional areas;
+ To increase the workforce participation of women, funding of $2.6 million over three years from 2021-22 to expand the "Career Revive" program to support more medium to large regional businesses attract and retain women returning to work after a career break; and
+ $11.2 million of funding to continue the remote response to COVID to support regional and remote indigenous communities.

5 INDIVIDUALS AND FAMILIES

5.1 INCOME TAX CUTS

The Government did not announce any changes to the individual income tax rates, having already brought forward cuts to personal income tax rates and changes to the tax brackets to 1 July 2020, which were announced in the 2020-21 Budget.

5.2 LOW AND MIDDLE INCOME TAX OFFSET

The Government will continue to provide targeted tax relief to low and middle-income earners by retaining the LMITO for a further year during the 2021-22 income year. The intention of this measure is to reduce the tax burden on individuals, thereby providing them with extra cash that is expected to boost consumption and help secure economic recovery.

This tax offset will reduce tax payable by up to $1,080 for individuals or $2,160 for dual income couples. For an individual, the full offset of $1,080 is available where taxable income is between $48,000 and $90,000. The offset starts to phase out thereafter until it reduces to nil at a taxable income of $126,000.

The LMITO will be received on assessment after individuals lodge their tax returns for the 2021-22 income year.

The Government expects that approximately 10 million individuals will be eligible for the offset in 2021–22.

5.3 SUPERANNUATION

Several superannuation measurers were announced in the Budget.

(a) First home super savings scheme – increase in the maximum amount available to be released

The Budget proposes to increase the maximum releasable amount of voluntary concessional and non-concessional contributions made under the first home super saver scheme from the existing level of $30,000 to $50,000. In addition, the Government has indicated that voluntary contributions made from 1 July 2017 up to the existing limit of $15,000 per year will be able to count towards the total amount able to be released.

The increase in the threshold to $50,000 will apply from the start of the first financial year after receiving Royal Assent of the enabling legislation, which is expected to have occurred by 1 July 2022.

This measure is designed to continue with the theme of allowing first home buyers to access their superannuation funds as a means of raising a deposit for their first home.

A number of complementary technical changes have also been made to assist first home buyers using the scheme. These changes are as follows:

+ Increasing the discretion of the Australian Taxation Office (ATO) to amend and revoke applications;
+ Allowing individuals to withdraw or amend their applications prior to them receiving an amount under the scheme;
+ Allowing the ATO to return any released scheme money to superannuation funds provided the money has not been released to the individual; and
+ Clarifying that money returned by the ATO to superannuation funds is to be treated as non-taxable and will not be taken into account in the calculation of the individual's contribution caps.

These administrative amendments will apply retrospectively from 1 July 2018.

(b) Reducing the eligibility age for downsizer contributions

Currently, the eligibility age to make downsizer contributions into superannuation is 65 years. This age will be reduced to 60 years. It is expected that this change will occur at the start of the first financial year after Royal Assent of the enabling legislation which the Government expects to have occurred prior to 1 July 2022.

Downsizer contributions are one-off post-tax contributions to a person's superannuation fund of up to $300,000 per person where that money is sourced from the proceeds of selling their home. Both members of a couple can contribute in respect of the same home and contributions do not count towards non-concessional contribution caps.

One could argue that you are taking your money out of your left pocket and putting it in your right. However, the policy rationale for this is to allow more older Australians to consider downsizing to a smaller home that better suits their needs, thereby freeing up a stock of larger homes for younger families to acquire.

(c) More flexible super – removing the work test

Individuals currently aged 67 to 74 years can only make voluntary contributions (whether concessional or non-concessional) to their superannuation if they are working at least 40 hours over a 30 day period in the relevant financial year.

The Government will amend the law to allow individuals in this age bracket to make or receive non-concessional or salary sacrifice superannuation contributions without meeting this work test. Again, like the other superannuation measures, this measure is to have effect from the start of the first financial year after Royal Assent of the enabling legislation which again is expected to occur prior to 1 July 2022.

The policy hope is that this change will simplify the existing rules and provide older Australians with a greater flexibility to fund their own retirement.

5.4 INDIVIDUAL TAX RESIDENCY RULES

In a bid to simplify Australia's tax residency rules, the Government has announced a new framework to determine the tax residency of an individual, which will replace the existing residency tests (that is, the resides test, domicile test, 183-day test and Commonwealth superannuation test).

Under the new "bright line" test, an individual who is physically present in Australia for 183 days or more in any income year will be an Australian tax resident. Individuals who do not meet the primary test will be subject to secondary tests, which are dependent on a combination of physical presence, measurable and objective criteria. At this stage, it is unclear whether the individual needs to be in Australia for a continuous period of 183 days to satisfy the test; however, the enabling legislation should clarify this point.

The new residency test is welcomed as it will deliver greater certainty in determining the tax residency of an individual when compared to Australia's current tax residency rules, which have become increasingly difficult to apply in practice.

This measure will have effect from the first income year after the date of Royal Assent of the enabling legislation.

5 INDIVIDUALS AND FAMILIES (CONT)

5.5 WOMEN

After the Government received criticism for last year's Budget for its lack of funding for women and ongoing high profile criticism of the Government's approach to women, this year's Budget provides a plethora of funding for women by focusing on issues relating to superannuation, workplace harassment, economic security, safety and health.

(a) Superannuation

In response to concerns that women retire with less superannuation than men, the Budget has removed the $450 per month threshold for superannuation eligibility whereby employees who earn less than $450 per month will now be paid superannuation. The Treasurer stated that 200,000 women would benefit, but failed to note how many men would also benefit from this non-gender-specific measure or that the result of the changes is a token amount being added to superannuation accounts or indeed that the additional cost to employers may even result in a smaller take-home paycheck for employees, women and men alike.

(b) Women's economic security package

The largest funding announced pertaining to women is that of the women's economic security package, which aims to improve women's workforce participation and economic security. Key funding importantly includes:

+ Commencing July 2022, changes to the Child Care Subsidy (CCS) by removing the annual $10,560 CCS cap on households with an income of more than $189,390, and increasing the CCS subsidy for parents with two or more children in childcare, whereby the CCS becomes 95% for each child;
+ Focusing on funding initiatives regarding women in science, technology, engineering and mathematics, and women in leadership;
+ Focusing on providing financial support for enterprises that improve the economic security of Indigenous women through the establishment of an Early Stage Social Enterprise Foundation;
+ Funding an additional round of the National Careers Institute Partnership Grants program to support projects that facilitate career opportunities and career pathways for women;
+ Extending the family law small claims property pilot and Legal Aid Commission family law property mediation trial for settlement of property of less than $500,000 following a relationship breakdown; and
+ Expanding the Career Revive program to support more medium to large regional businesses attract and retain women returning to work after a career break.

(c) Women's safety

The Government will provide funding regarding women's safety:

+ $998.1 million over four years from 2021-22 (and $2.3 million in 2025-26) for initiatives to reduce, and support the victims of Family, Domestic and Sexual Violence (FDSV) against women and children; and
+ $92.4 million over four years to support programs aimed at the prevention of FDSV.

Measures include funding to expand frontline FDSV support services, the provision of financial support of up to $5,000 to women fleeing domestic violence, support for refugee and migrant women's safety, support for Aboriginal and Torres Strait Islander women and children experiencing family violence, expanding the Safe Places program, further supporting Temporary Visa holders experiencing FDSV, and addressing technology-facilitated abuse of women and children. Also included are campaigns, informative support and safety reforms, educational resources for young Australians, FDSV prevention programs, and other measures which focus on the prevention of FDSV against women.

Moreover, funding will be provided for legal support services for women and children dealing with FDSV such as additional legal assistance funding for women's legal centres, increased access to Children's Contact Services, enhanced funding towards existing Family

Advisory Support Services, and funding to strengthen the justice response to sexual assault, sexual harassment and coercive control.

Lastly, funding of $80.6 million over five years will also be provided to improve data collection and to further enhance research capability into FDSV to better support the development of future policy responses including the development of the next National Plan to reduce FDSV in Australia.

(d) Workplace harassment

The Government will provide funding over four years from 2021-22 to implement its response to the Respect@Work Report, including the Workplace Gender Equality Agency.

(e) Women's health

A large focus of the funding for women includes an additional $148 million over five years from 2020-21, and $4.2 million in 2025-26, for health care services for women. This includes funding towards screening and testing services for both breast cancer and cervical cancer, women's health initiatives, education to health care providers and families on pre-term birth risks, and women's health foundations or entities such as the Breast Cancer Network Australia, the Pelvic Pain Foundation of Australia, the McGrath Foundation, Ovarian Cancer Australia, and professional bodies to increase clinicians supported to undertake stillbirth autopsies and develop educational resources to support parents.

5 INDIVIDUALS AND FAMILIES (CONT)

5.6 AGED CARE

Following the failings of aged care seen in the COVID crisis last year and the failings exposed by the Royal Commission into Aged Care Quality and Safety (the Royal Commission), the Budget seeks to address these issues by injecting $17.7 billion towards aged care over five years. Whilst this is a significant injection into aged care, it is worth noting the Royal Commission declared the sector was underfunded by about $10 billion a year – more than $30 billion compared to the funding in the Budget.

(a) Governance and regional access

The Budget provides for $698.3 million over five years from 2020-21 for governance and access. This funding goes towards improving access to quality aged care services, the development of a new aged care Act, the establishment of the National Aged Care Advisory Council, improving advice to Government on aged care and engagement with the aged care sector about aged care reforms.

(b) Home care

The Government will provide $7.5 billion over five years from 2020-21 for home care by funding 80,000 additional home care packages, providing greater access to respite care services and payments to support carers, supporting seniors' access to information about aged care and navigating the aged care system, ensuring the continued operation of My Aged Care, enhancing the oversight and transparency of the delivery of home care packages and providing for the design and plan a new home care program.

(c) Residential aged care quality and safety

The Government will provide $942.0 million over four years from 2021-22 to residential aged care quality and safety by improving access to primary care and other health services in residential aged care, providing funds for the Aged Care Quality and Safety Commission to safeguard the quality, safety and integrity of aged care services, introducing a new star rating system on quality and safety performance of aged care providers, and funds for the Dementia Behaviour Management Advisory Service and the Severe Behaviour Response Teams to strengthen the regulation of chemical and physical restraints.

(d) Residential aged care services and sustainability

The Government will provide $7.8 billion over five years from 2020-21 to improve residential aged care services. In particular, this significantly includes increasing the amount of frontline care delivered to aged care and respite care residents, whereby by 1 October 2023, providers will be required to provide 3 hours and 20 minutes of care per resident per day, including 40 minutes with a registered nurse. Additionally, funding will go towards a new government-funded "Basic Daily Fee" supplement of $10 per resident a day for providers to improve care and services.

(e) Workforce

Lastly, the Government will provide $652.1 million over four years from 2021-22 for the aged care workforce to increase car standard and skills in the aged care workforce, provide more specialised training and provide for new home care workers.

5.7 HOUSING

The Government will provide $782.1 million over four years from 2021-22 in relation to:

+ the HomeBuilder program over two years to extend the construction commencement requirement from six months to 18 months for all existing applicants ($774.8 million);
+ establishing the Family Home Guarantee with 10,000 places to support single parents with dependents to enter, or re-enter, the housing market with a deposit of as little as 2%; and
+ extending the First Home Loan Deposit Scheme to provide an additional 10,000 New Home Guarantees in 2021-22 to allow eligible first home buyers to build a new home or purchase a newly constructed home sooner with a deposit of as little as 5%.

The bulk of these measures were announced prior to the Budget.

6 BUSINESS TAX MEASURES

6.1 EXTENSION OF TEMPORARY FULL EXPENSING TO SUPPORT INVESTMENT AND JOBS

Businesses with "aggregated turnover" or total income of less than $5 billion will be able to deduct the full cost of eligible depreciable assets that are acquired from 7:30pm AEDT on 6 October 2020 and first used or installed ready for use by 30 June 2023.

This measure is a 12-month extension to the temporary full expensing measures that were introduced as part of the 2020-21 Budget which required assets to be first used or installed ready for use by 30 June 2022. Importantly, all other elements of the existing temporary full expensing measures will remain unchanged.

6.2 EXTENSION OF TEMPORARY LOSS CARRY-BACK TO SUPPORT CASH FLOW

Consistent with the 12-month extension of the full expensing measures, the Government has also announced that it will be extending the 2020-21 Budget's loss carry-back measures by another year.

Specifically, this measure will allow corporate tax entities with aggregated turnover of less than $5 billion to "carry back" tax losses made in the 2019-20, 2020-21, 2021-22 and 2022-23 income years to offset previously taxed profits from the 2018-19, 2019-20, 2020-21 and 2021-22 income years. This offset will generate a refundable tax offset in the income year in which the loss is made.

This refundable tax offset 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 loss carry-back will only be available to companies and certain entities that are taxed as companies, not to individuals, trusts or partnerships. Businesses should consider the interaction of this measure with 12-month extension to the full expensing measures that have been announced.

6.3 THE "PATENT BOX"

The Government has announced the introduction of a "Patent Box" for income years starting on or after 1 July 2022.

The Patent Box will provide a concessional effective corporate tax rate of 17% for income derived from Australian-developed medical and biotechnology patents (with consultation to occur on whether this should be extended to patents developed in the clean energy sector).

Industry consultation will occur before the details of this regime are settled. That said, it would not be surprising if Australia's rules were modelled off the United Kingdom's Patent Box regime that was introduced in 2013. We expect that, like Australia's existing research and development tax incentives, the Patent Box regime will probably be managed jointly by AusIndustry and the ATO. At the very least, this would provide an existing channel for ensuring compliance with the requirement that new patents be developed in Australia (noting that eligible R&D activities also need to be undertaken in Australia).

6.4 NEW START DATE FOR THE CORPORATE COLLECTIVE INVESTMENT VEHICLE (CCIV)

After consultation processes stalled in 2019, the Government has committed to finalising the CCIV regime (announced as part of the 2016-17 Budget) with a revised commencement date of 1 July 2022.

The CCIV regime is targeted at enhancing the international competitiveness of Australia's managed funds industry by providing a corporate fund vehicle structure that is more familiar to offshore investors. The tax concessions afforded to CCIVs will be like those that are already available to Australian managements investment trusts (MITs) and attribution managed investment trusts (AMITs) (being the prevailing managed fund vehicles currently being utilised in Australia). Consultation on the CCIV rules identified a range of technical deficiencies that may render the CCIV structure less favourable than existing MITs and AMITs. Unless the Government can find a way to incentivise fund managers to adopt this new structure, uptake is expected to be slow.

6.5 EXCHANGE OF INFORMATION JURISDICTIONS

Effective from 1 January 2022, Armenia, Cabo Verde, Kenya, Mongolia, Montenegro and Oman will be added to the list of jurisdictions that have an effective information sharing agreement with Australia. Interestingly, Kenya was removed from the list in January 2020 and will be re-added to the list from 1 January 2022.

This will enable investors resident in these countries to access a concessional withholding tax rate of 15% (instead of 30%) in relation to distributions of certain income (such as rent from Australian real estate and capital gains from disposals of Australian real property interests) by AMITs.

6.6 BYE-BYE OBU

In response to concerns raised by the OECD about Australia's concessionally taxed offshore banking unit (OBU) regime, the Government has decided to remove the existing concessional 10% effective tax rate that applies to the eligible offshore banking activities of existing OBUs. The removal of the concession will be effective from the end of the 2022-23 income year.

In addition, from 1 January 2024, the Government will also remove the current exemption from withholding tax that applies to interest and gold fees paid by OBUs on certain offshore borrowings.

The removal of these concessions will bring to an end a regime that was originally introduced to attract effectively international dealings into the Australian marketplace so as to promote Australia as an international financial services sector. Over its life, the regime has been the subject of various tightening measures designed at improving its integrity so as to maintain its original policy objectives. It is interesting to note that the removal of the concession is estimated to result in a decrease in tax receipts over the period to 2025 of $160 million.

7 DIGITAL ECONOMY STRATEGY

The Budget allocates $1.2 billion over six years to the digital economy strategy. The strategy is about "investing in the settings, infrastructure and incentives to grow Australia's digital economy to ensure businesses across all sectors are able to lift productivity and be globally competitive".

7.1 INTANGIBLE ASSETS

Many types of intangible depreciating assets currently have their effective lives set by statute. For example, a standard patent can be depreciated over 20 years, a registered design over 15 years and a copyright can be depreciated over the lesser of 25 years and the period until the copyright ends.

In a bid to more closely align the period of tax depreciation with the underlying economic benefits provided by the assets, the Government proposes to introduce a regime to allow taxpayers to self-assess the effective lives of certain types of intangible depreciating assets.

These measures are proposed to apply to assets acquired from 1 July 2023 (after the temporary full expensing measures have expired).

7.2 TELECOMMUNICATIONS

The Budget will invest in infrastructure to improve mobile phone reception in bushfire-prone areas.

The Australian Competition and Consumer Commission will also receive additional funding to monitor broadband services and help consumers make informed decisions. This will result in increased annual carrier licence charges to recoup these costs.

Money has also been allocated to enhance the security of Australia's mobile networks.

7.3 OTHER MEASURES

Other highlights include spending on:

A 30% refundable tax offset (called the Digital Games Tax Offset) for qualifying digital games expenditure from 1 July 2022. Industry consultation will help set the criteria and definition of qualifying expenditure. Although this was highly publicised, expenditure over four years is only expected to be $18.8 million;

Enhancing AI capability, including establishing AI and digital capability centres, grants to businesses and training through scholarships;

Emerging aviation technologies, although some of this is targeted at regulating and managing risks associated with drone use;

Data, including continuing the implementation of consumer data rights, establishing a digital atlas of Australia's geography and identifying other Government data assets for private use;

Digital skills, including improving the quality and quantity of cyber security professionals and various scholarships;

Various Government digital systems such as the MyHealth Record system and a new, enhanced myGov platform;

Various programs aimed at small businesses; and

Inevitably, various taskforces, partnerships and pilots.

8 SPECIFIC EXPENDITURE MEASURES

8.1 EXCISE REFUND SCHEME FOR BREWERS AND DISTILLERS

From 1 July 2021, eligible brewers and distillers will be able to receive a full remission of any excise they pay, up to a cap of $350,000 per financial year.

8.2 COVID-RELATED MEASURES

Leading up to the Treasurer's delivery of the Budget speech, some commentators had expressed views that the Government has already failed in its distribution and administration of the COVID vaccines. It is no surprise that the Budget outlines the Government's plan to protect Australians from COVID.

The Government announced that it will provide $1.9 billion over five years from 2020-21 to distribute and administer COVID vaccines to residents of Australia. Funding includes:

+ $777.8 million over two years from 2020-21 for the COVID Vaccination Program, including for surge workforce, general practitioners and community pharmacies to administer vaccines;
+ $358.8 million over five years from 2020-21 to support the implementation, monitoring and reporting of the vaccine rollout; and
+ $233.8 million over two years from 2020-21 for COVID vaccine distribution, vaccine consumables, logistics and storage.

The Government has also entered into advance purchase agreements for an additional 30 million doses of the Pfizer BioNTech vaccine and has provisioned to purchase additional vaccine doses, including mRNA vaccines.

The Government will provide $879 million over two years from 2020-21 to continue the health response to the COVID pandemic, to support access to health care services and reduce the risk of community transmission of COVID. Funding includes $557.1 million to extend temporary Medicare Benefits Schedule pathology items for the testing and detection of COVID and $87.5 million to extend dedicated Commonwealth respiratory clinics to manage and diagnose cases of COVID.

Time will only tell if the allocated amounts of funding towards the COVID-19 Response Package are sufficient to protect Australians from the continuing effects of COVID.

8.3 HEALTH

In a bid to support the health of Australians, guaranteeing Medicare and access to medicines, the Government announced a vast range of health-related measures, including funding to:

+ Implement changes to the Medicare Benefits Schedule;
+ Expand and improve dental health services;
+ Improve the quality and availability of diagnostic imaging services;
+ Support the delivery of primary care and the health workforce in rural and remote Australia; and
+ Invest in medical research in Australia.

The Treasurer made it clear that spending on mental health is a national priority. In recognition of the rise of Australians struggling, or at risk of struggling, with their mental health, the Government has announced that it will provide $2 billion over four years from 2021-22 for the National Mental Health and Suicide Prevention Plan, including initiatives to be progressed with states and territories for a new national agreement on mental health and suicide prevention. Funding will support mental illness prevention and early intervention, suicide prevention (including aftercare services for people who have been discharged from hospital following a suicide attempt), mental health treatment (including the treatment of eating disorders) and mental health initiatives supporting vulnerable Australians (including Aboriginal and Torres Strait Islander people and multicultural communities).

8.4 EDUCATION

(a) Reducing compliance costs: claiming self-education expense deductions

The Government has announced that it will remove the exclusion of the first $250 of deductions for prescribed courses of education, with the date of effect being from the first income year after the date of Royal Assent of the enabling legislation.

This measure is aimed at reducing compliance costs for individuals claiming self-education expense deductions.

(b) Preschool

The Government has announced that it will provide $1.6 billion in funding over four years to contribute to preschool. Funding will be contingent on the states and territories agreeing to a robust reform timeline focused on increasing participation and school readiness. The funding includes developing and trialling a method for testing the degree to which preschools achieve the outcome of getting children school-ready.

(c) Higher education

The Government has announced that it is to provide additional funding with respect to higher education, which include:

+ Offering 5,000 additional short course places in 2021;
+ Providing grants of up to $150,000 to eligible higher education and English language providers to support innovative online and offshore education delivery models; and
+ Extending the FEE-HELP loan fee exemption by six months to 31 December 2021.

The Government has also announced that it will reduce various fees and charges imposed by the Australian Skills Quality Authority, the Tertiary Education Quality and Standards Agency and the Department of Education, Skills and Employment.

The Government will also provide additional funding to create new employment pathways for students and boost financial incentives for universities to enrol students in "Industry PHDs".

(d) Boosting apprenticeships wage subsidy

The Government has announced that it will provide additional funding to further support businesses and Group Training Organisations to take on new apprentices and trainees. From 5 October 2020 to 31 March 2022, businesses of any size can claim the Boosting Apprenticeship Commencements wage subsidy for new apprentices or trainees who commence during this period. Eligible businesses will be reimbursed up to 50% of an apprentice or trainee's wage of up to $7,000 per quarter for 12 months.

(e) Skills reform package

The Government has announced that it will provide additional funding for skills reform, which includes establishing 15 industry owned Skills Enterprises and a new VET National Data Asset, redesigning and rebuilding the National Training Register, uncapping the Skills for Education and Employment program and developing a single national digital apprenticeship portal.

(f) JobTrainer Fund

The Government has also announced that it will provide additional funding to extend the JobTrainer Fund. Eligibility for the JobTrainer Fund will be expanded to deliver around 163,000 additional low fee and free training places in areas of skills need, including 33,800 additional training places to support aged care skills needs and 10,000 places for digital skills courses.

(g) Students

Student visa holders will temporarily be allowed to work more than 40 hours per fortnight, as long as they are employed in the tourism or hospitality sectors.

Also, from 5 January 2021, work limitation conditions placed on student visa holders have been temporarily lifted to allow these visa holders to work more than 40 hours per fortnight if they are employed in the agricultural sector.

8 SPECIFIC EXPENDITURE MEASURES

8.5 AVIATION AND TOURISM

The Government has announced that it will provide additional funding in the amount of $1.8 billion over four years from 2020-2021 to support the aviation and tourism sectors as part of the Government's response to COVID, support transition to recover and stimulate tourism.

The additional funding includes a range of incentives and support for various programs, including subsidising the cost of domestic airfares to tourism regions through the Tourism Aviation Network Support program from 1 April to 31 July 2021.

8.6 ENERGY

A range of budget measures are designed to provide reliable, secure and affordable energy to Australians. These are broadly across four areas:

Electricity. The initiatives include $24.9 million over 3 years from 2021-22 to support the development of hydrogen ready gas generation infrastructure and up to $30 million to support a big battery and the roll-out of microgrids in remote Indigenous communities.

Gas. Funding of $58.6 million will be provided to support critical gas infrastructure.

Fuel security. Funding over 9 years will be provided to maintain Australia's sovereign refining capacity and enhance national fuel security including $50.7 million over 6 years from 2021-22 for the implementation and administration of the minimum stockholding obligation and the broader fuel security framework.

Emissions reductions. The government will provide $1.6 billion of funding over 10 years from 2021-22 to incentivise private investment in technologies identified in the Government's Technology Investment Roadmap and Low Emissions Technology Statements, grow new export industries, create jobs and reduce emissions.

The Government will also consult on the potential extension of the proposed patent box regime to the clean energy sector. However, serious consideration of climate matters is notably lacking from the Budget.

8.7 BETTER CONSUMER OUTCOMES FOR MEMBERS OF SUPERANNUATION

The Government will provide $11.2 million over four years from 2021-22 to support stronger consumer outcomes for members of superannuation funds by providing:

+ $9.6 million for the Australian Prudential Regulation Authority to supervise and enforce increased transparency and accountability measures as part of the Government's Your Future, Your Super reform; and
+ $1.6 million to Super Customers Australia to support stronger consumer outcomes on behalf of superannuation fund members.

8.8 ADDITIONAL RESOURCING FOR TREASURY'S PORTFOLIO

The Government will provide $57.9 million over 5 years from 2020-21 to support the delivery of Government priorities including $6 million for Treasury and the ATO to accelerate the program of tax treaty negotiation.

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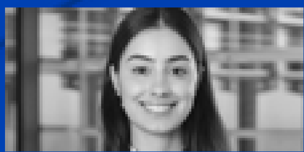

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