Federal Budget 2021-22

Key measures for business

May 2021

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Federal budget 2021-22: overview

1. **The COVID-19 pandemic** is still a live event globally. Australia has been relatively successful in avoided mass infections and mass unemployment. Australia is not yet 'post-COVID' but we are past the worst phase of economic disruption.
2. This Budget assumes that **mass vaccination** for the majority of working age people (under 50 years) will commence in earnest from late 2021.
3. **International travel** will remain heavily restricted until at least the middle of 2022.
4. **Localised activity restrictions**, lockdowns and border closures are likely in 2021.
5. This budget is (quite rightly) firmly **focussed on virus control, growth and jobs**. It prioritises lower infections and unemployment over lower deficits and debt.
6. The **tight focus on jobs, investment and skills and training** is welcome. This will help support economic growth, resilience and productivity over the long-term.
7. **Business taxation and other measures** for 2021-22 are aimed at supporting the worst-hit sectors (directly affected by travel restrictions) and supporting broad-based business investment. This is crucial to long-term resilience and productivity.

Key forecasts

0.2%

Population growth in 2021-22

4.25%

Real GDP growth in 2021-22

4.75%

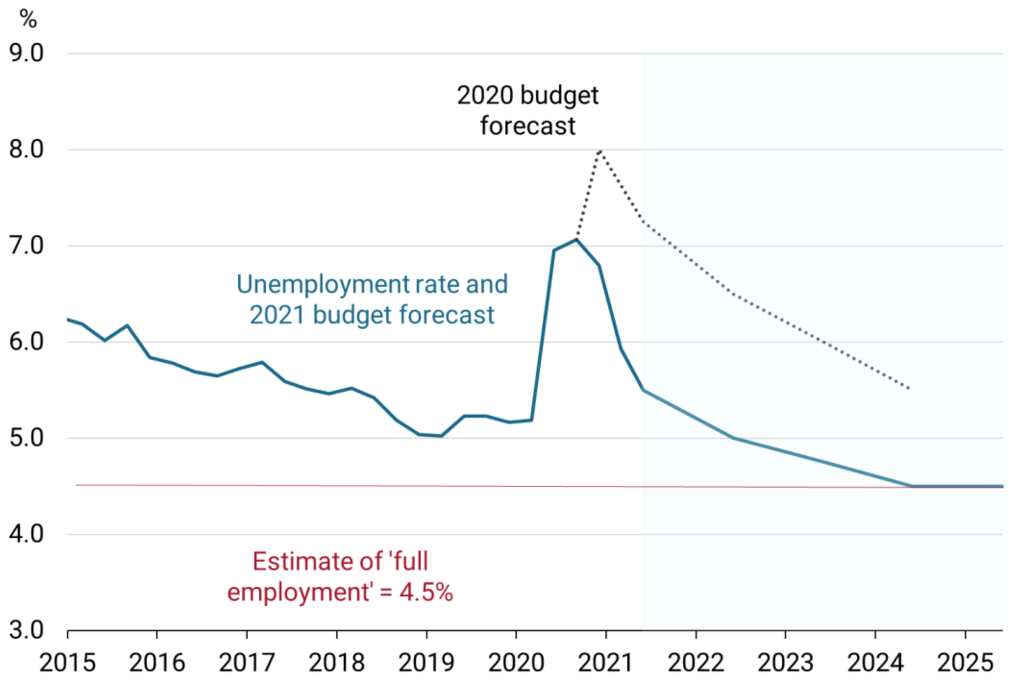
Unemployment rate by June 2023

This budget's stated objective is to drive down unemployment first, with fiscal repair (that is, reductions in the structural deficit and net debt) left to later

Treasurer Frydenberg:

- *"the best way to fix the budget is to fix the economy"*
- we want *"the unemployment rate down to where it was prior to the pandemic [around 5%] and then even lower. And we want to see that sustained."*
- We *"must avoid long-term generational unemployment at all costs"*
- This is a significant shift from last year's stated objective of switching to fiscal repair (reducing deficits and debt) once the unemployment rate is "comfortably below 6%".
- RBA and Treasury both agree that the 'full employment' rate of unemployment for Australia is now 4.5% or lower.
- In practice, this means the government will prioritise job creation and skills programs over the next four years.

Unemployment rate and Treasury forecasts



Note: Shaded area is the forecast period
Source: Commonwealth Treasury

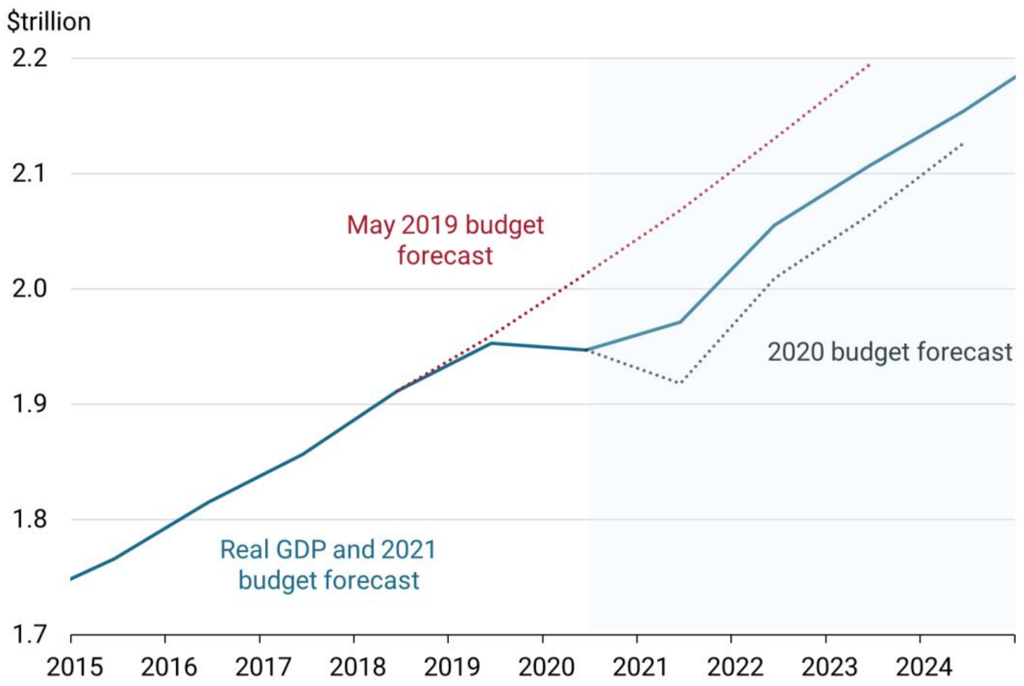
Economic outlook for 2021-22 upgraded following a relatively fast recovery in 2020-21. Longer-term output levels & growth held back by a smaller population

Treasury forecasts for output, investment and employment

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Real GDP	-0.2	1.25	4.25	2.5	2.25	2.5
Household consumption	**-3.0**	1.25	5.5	4	na	na
Dwelling investment	**-8.1**	2.5	0	-1.5	na	na
Total business investment	**-2.0**	-5	1.5	10	na	na
By industry						
Mining investment	**6.8**	0.5	3	3.5	na	na
Non-mining investment	**-4.5**	-6.5	1.5	12.5	na	na
Employment**	-4.2	6.5	1	1	1.25	1.25
Unemployment rate^	6.9	5.5	5	4.75	4.5	4.5
CPI**	-0.3	3.5	1.75	2.25	2.5	2.5
WPI**	1.8	1.25	1.5	2.25	2.5	2.75
Nominal GDP	1.7	3.75	3.5	2	4.75	5
Population growth	1.3	0.1	0.2	0.8	na	na

*Percentage change on preceding year unless otherwise indicated.
**year-ended to June quarter
Note: Shaded area is the forecast period
Source: Commonwealth Treasury

Real GDP levels and Treasury forecasts



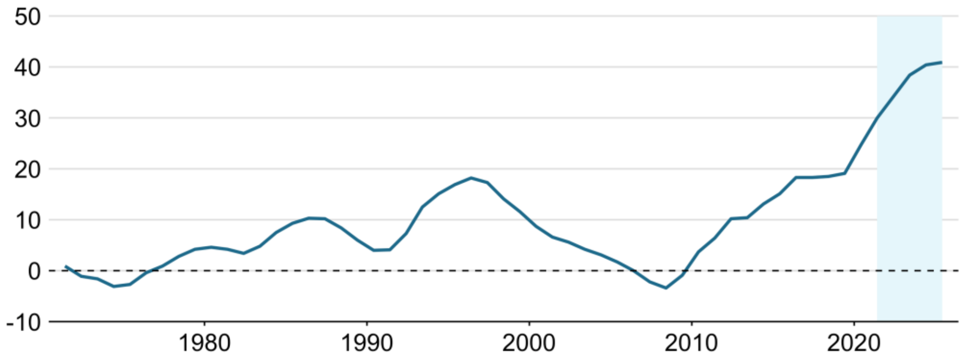
The fiscal position: smaller deficits but a bigger debt and stable debt burden

A stronger economic recovery in 2020-21 means:

- REVENUE from taxation and other sources is higher in 2020-21 than had been expected. Record high prices for iron ore and other commodities is providing a significant but temporary (and unreliable) boost to total revenue.
- EXPENDITURE is lower than expected because fewer people are in need of income support.
- NEW BUDGET MEASURES are effectively spending all of this improvement in 2021-22, mainly on one-off measures to support health measures, job creation and investment.
- Operating deficits will continue over the outlook period but they will reduce each year. There is no stated target date for balance.
- Net debt will rise sharply in nominal terms and relative to GDP.
- Record low interest rates are keeping a lid on the cost of servicing this debt. Net interest payments will stay at 0.7% of GDP. The large debt means any rises in interest rates are a big risk to fiscal balance.

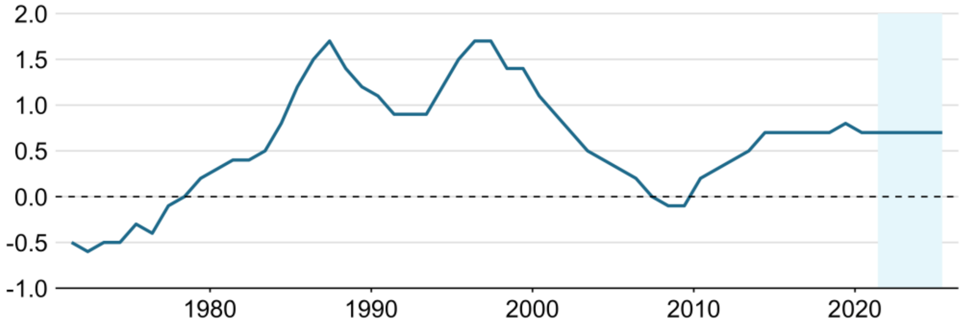
Despite net debt rising significantly because of the pandemic...

Net debt to GDP (%)



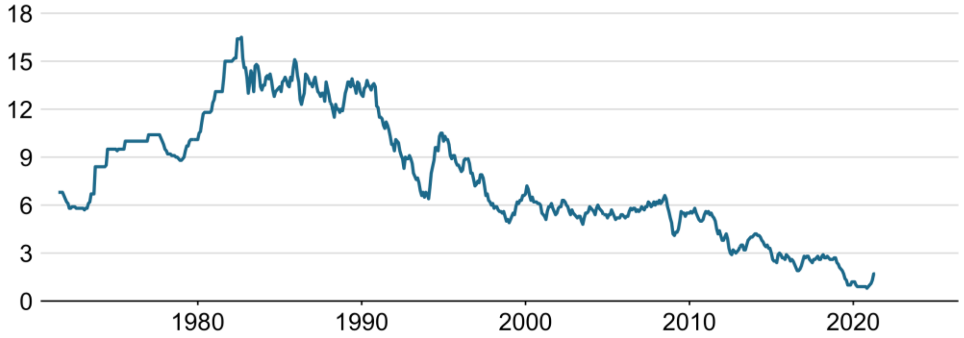
...the cost of servicing that debt will be lower in 2021-22 than in 2018-19 and much lower than the late 1980s and 1990s

Net interest payments to GDP (%)



Why? historically low interest rates

Yield on 10-year Australian government bonds (%)



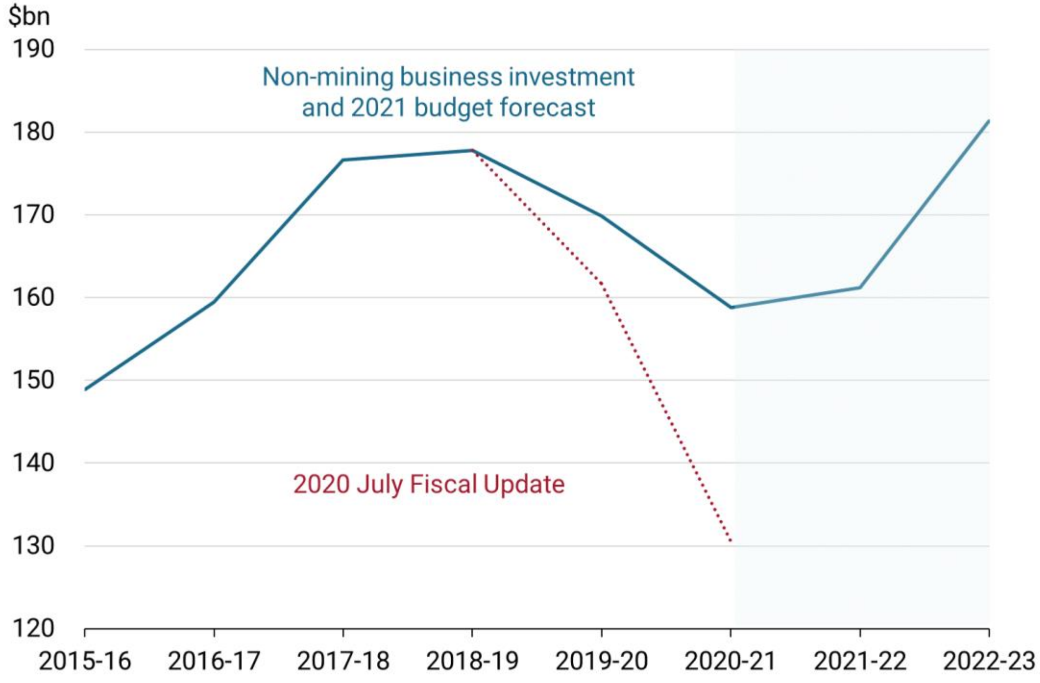
Note: shaded area are forecasts

Source: Ai Group

Tax changes for business and individuals

- **BUSINESS INVESTMENT** took a big hit in 2020. It gets an extra $20.7 billion in temporary tax relief over the next four years. This is the single largest revenue measure this year.
- The instant asset write-off (full expensing) of eligible capital equipment introduced in 2020 is extended for another year, to 30 June 2023, as recommended by Ai Group in our pre-budget submission. It applies to all eligible asset purchases (with no maximum cap per item) by businesses with turnover under $5bn.
- The temporary loss carry-back arrangements are also extended for another year, to 30 June 2023.
- **FOR INDIVIDUALS**, the Low and Middle Income Tax Offset (LMITO) is extended for another year. This is an offset against tax payable by low and middle-income earners (up to around $90,000 p.a.) worth up to $1,090 per person and paid as a lump sum tax refund after the tax year. This is expected to provide a significant boost to consumption in 2021 and 2022.

Non-mining business investment and Treasury forecasts



Note: Shaded area is the forecast period
Source: Commonwealth Treasury

Wage subsidies and other supports for disadvantaged jobseekers

Local Jobs Program

- **successfully commenced** in 20 labour market regions with high unemployment numbers, including 5 regions in and around Melbourne.
- $213.5 million over four years from 2021-22 to expand this program to all 51 employment regions nationally.
- extend the program for three years from 30 June 2022 to 30 June 2025.
- **The Local Jobs Program** supports tailored approaches to accelerate reskilling, upskilling, and employment pathways in selected regions, supporting Australia's economic recovery from the COVID-19 pandemic.
- It includes **information and job matching** for local job seekers and **grants** for local businesses, business groups and community groups to undertake job preparation, creation and support programs.

Wage subsidies

- $15.6 million in 2021-22 to **increase all wage subsidies to $10,000** for eligible participants in jobactive, Transition to Work, and Parents Next programs.
- This will align wage subsidies in 2021-22 with those commencing under the **New Employment Services Model** from 1 July 2022

Other job seekers measures funded by this package:

- $15.5 million in 2020-21 and 2021-22 for an additional 1,000 places in the **New Business Assistance** with New Enterprise Incentive Scheme and an additional 350 places in the Exploring Being My Own Boss program.
- $6.2 million in 2020-21 and 2021-22 for **26 Jobs Fairs** nationally, to be held in person and virtually.
- $1.6 million in 2020-21 and 2021-22 to expand **Relocation Assistance for job seekers** taking up short term agricultural work under AgMove.

JobTrainer extended, large focus on the digital economy

JobTrainer

- The Budget extends the JobTrainer program for another 12 months. **$500m** from the Commonwealth to be matched by the states
- JobTrainer was established by the federal government in partnership with state governments in 2020 to provide affordable courses to help young people develop skills needed in the workforce.
- The full list of courses that are free depend on the state's TAFE system.
- Eligibility was initially for 16-24 year old. This has been expanded to include targeted disadvantaged cohorts
- Job Trainer is expected to fund an additional **163,000 training places.**

Source: Commonwealth Treasury

Digital Economy Strategy

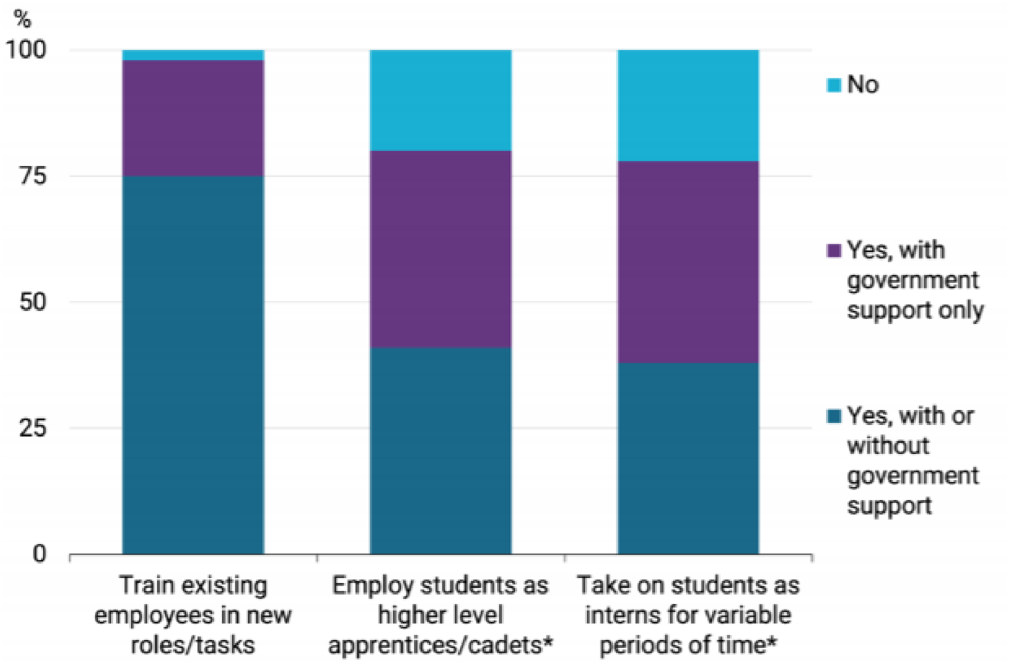
- The Government's Digital Economy Strategy commits $1.2 billion over six years from 2021-22 to enhance government and business digitalisation, with much of this spending directed toward digital skills for businesses and individuals.
- $22.6 million over six years from 2021-22 to establish the **Next Generation Emerging Technologies Graduates Program** to provide up to **234 scholarships** in emerging technologies areas.
- $10.7 million over three years from 2021-22 to trial up to four **industry-led Digital Skills Cadetship pilots** to develop new and innovative pathways to increase the number of Australians with high level digital skills
- $24.7 million over six years from 2021-22 to establish the **Next Generation AI Graduates Program** to attract and train AI specialists through national scholarships

Boosting Apprenticeship Commencements program

- The Government is spending an additional $2.7 billion to extend the Boosting Apprenticeship Commencements program.
- The demand-driven program is expected to support more than **170,000 new apprentices and trainees** by paying businesses a **50 per cent wage subsidy** over 12 months for newly commencing apprentices or trainees **signed up by 31 March 2022.**
- The subsidy will be capped at $7,000 per quarter per apprentice or trainee but no more than **$28,000 p.a.**
- This Government is also delivering pathway services for 5,000 women to commence in a non-traditional apprenticeship.

Source: Commonwealth Treasury

Strategies used to increase employees' skill levels



Source: Ai Group

New industry engagement arrangements for vocational training

The government will provide:

- an additional $149.2 million over four years to establish **a new model for industry engagement** in the VET system.
- Establishment of **up to 15 industry clusters** for a strong, strategic industry voice, drive collaboration across sectors by breaking down silos, address strategic workforce challenges and improve speed to market of qualifications to meet evolving industry needs
- **Alignment of qualifications** to skills that are in demand, with a focus on getting more learners into jobs.

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