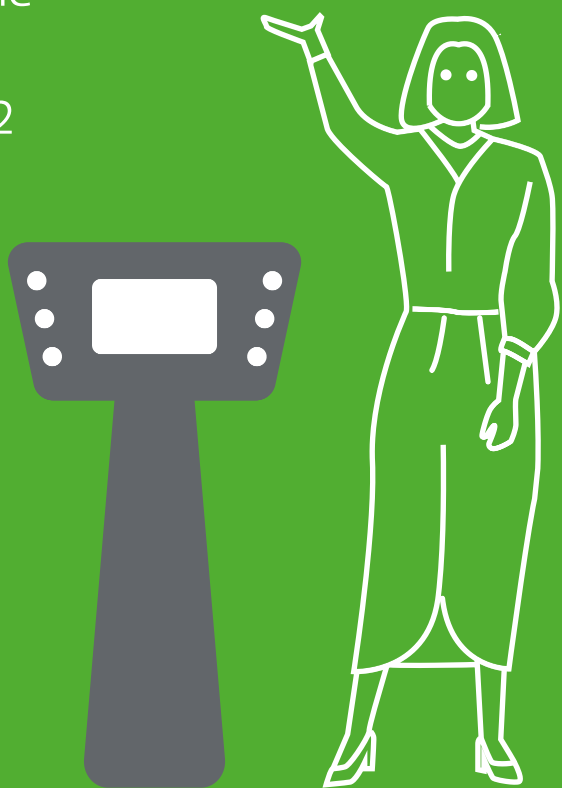
FEDERAL BUDGET 2022–23

Insights and analysis into the
Australian Federal Budget
delivered on 29 March 2022



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INDIRECT TAX

INTERNATIONAL

INDIVIDUALS

SUPERANNUATION

INNOVATION

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- AGRIBUSINESS
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- PROPERTY
- CYBER
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PROGRESS OF PREVIOUS MEASURES

For further information visit:
www.rsm.com.au/federal-budget-2022-23

Innovate, Create and Cuts to the Excise Rate

The 2022-23 Federal Budget has focussed on innovation, creating more jobs and reacting to the rising cost of living. However, there is little in the way of innovation and creation in the 2022-23 Federal Budget within the Australian tax system.

The Government has announced some exciting measures for small and medium businesses with annual turnover of less than $50m. Businesses will be allowed an additional 20% deduction for expenditure on digital uptake and training. The support to digital uptake is limited to a $100,000 spend so the tax benefit is limited to approximately $5,000 if the business spends the total of $100,000. Also the training concessions will only apply to external training. A small win for Small to Medium Enterprises (SMEs), however a bit unfortunate for businesses with just over $50m turnover.

For Pay As You Go (PAYG) instalments, lowering the Gross Domestic Product (GDP) uplift rate will mean lower instalments but this can already be achieved by PAYG variations and is only a timing difference.

There are amendments to the Employee Share Scheme (ESS) provisions which will allow employees to make large offers in connection with an ESS in unlisted companies. This and the reduction in red tape will hopefully assist smaller companies, but it will be interesting to see how many unlisted companies adopt an ESS. Also, the Federal Budget seems unclear on when these new incentives will take effect.

Most importantly in a bid to relieve the cost of living pressures for millions of Australians, a temporary reduction of fuel excise by 22 cents a litre will be introduced. We can finally fill up the tank for the next six months without taking out a personal loan. This is a short-term reactive measure, but welcome in any case.

Although no changes were made to personal tax rates to relieve the cost of living pressure, the "low and middle income tax offset" will be increased by $420 to a maximum of $1,500.

Other commendable initiatives include a one off $250 cost of living payment for eligible pensioners and welfare recipients. This will be paid in April and should just about cover the increase in your shopping bill for the month of April. Hopefully the extension of the First Home Guarantee Scheme to 50,000 places each year will have more impact for Australians trying to purchase their first home in a very buoyant property market.

There are a lot of incentives to increase training and employment, but there are no radical changes to the tax system and sometimes that is a good thing. Anyway, I'll wait until next week to fill up my tank.

The cut in excise tax will take about a week to flow through to the pumps.

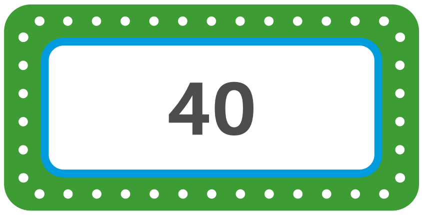
Excuse the pun.

If you do require any assistance with understanding how these changes will affect you or your business, please call your RSM provider.

Rami Brass
Director, Tax Services

CORPORATES

MODERNISATION THROUGH DIGITAL CAPABILITY AND COMPLIANCE ACTIVITIES



Where is the real modernisation through tax reforms?

The Government: a leading "big data" player

In recent years, the Government has invested a significant amount of resources into the digital capability of major Government agencies such as the ATO and the Australian Securities and Investments Commission (ASIC) with the introduction of Single Touch Payroll (STP) and Australian Business Registry Services (ABRS). This trend continues in the Budget and the Government's digital investment will likely pay dividends to businesses through:

- Sharing the STP data with State and Territory revenue offices, which would allow payroll tax returns to be pre-filled with STP data. Anticipated implementation date: late December 2023, though States and Territories may require additional implementation time
- Enabling companies to choose to have their Pay As You Go (PAYG) instalments calculated based on current financial performance directly from their accounting software with some tax adjustments. Anticipated start date: 1 January 2024
- Allowing businesses to report Taxable Payments Reporting Systems data on the same lodgement cycle as their activity statement cycle through the software provider. Anticipated start date: 1 January 2024

Whilst it is encouraging to see the direction the Government is taking in shaping the future of tax compliance, the above initiatives are dependent on the consultation and co-operation of stakeholders and participants, including businesses, software providers and State and Territory governments. This means that the current target dates may be ambitious.

If the delivery of the past digital enhancement projects is any indication to the timeliness of the new digital projects, it would not be a surprise to see these digital projects being delayed beyond the proposed target date, given that the consultation is yet to occur. As always with such initiatives, the devil will be in the details. The Government has admitted in this Budget that its initiative from the 2020 Budget, *Black Economy – strengthening the Australia Business Number system*, will be deferred by 12 months to in order to allow integration into the ABRS.

The original announcement from the 2020 Budget required all Australian Business Number (ABN) holders to lodge an income tax return from 1 July 2021 and confirm the accuracy of their details on the Australian Business Register (ABR) annually from 1 July 2022.

Further details of this initiative are set out in the International Tax section.

WINNERS

- Businesses with simple operating models through accessing automated tax reporting, though this will be deferred at least two years

LOSERS

- Large corporates and trusts, multinationals and high net wealth (HNW) individuals – through the further continuation of the Tax Avoidance Taskforce

There is also an extension of the ATO Tax Avoidance Taskforce on multinationals, large public and private groups, trusts and high net wealth individuals.

EMPLOYEE SHARE SCHEME

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- **Deferred taxing rule to apply where participants invest in unlisted companies for up to $30,000 per participant per year**
- **Flexibility to issue options wherein the $30,000 annual investment cap can be carried forward for five years making it possible for participants to invest $150,000 in shares in the fifth year**
- **No monetary caps apply where participants have an opportunity to immediately exit at a profit**

WINNERS

- Unlisted companies and their employees

Significant and meaningful boost to Employee Share Schemes

Once again, the Government has shown that it is committed to provide impetus to ESS' floated by unlisted companies. This encourages employees to have "skin in the game" for businesses that they help grow, enabling smaller businesses to attract and retain in-demand talent.

Removal of share value cap and flexibility of issuing options

Where ESS interests are issued by an unlisted company, it is proposed that the participating employees will be able to access deferred taxation where the participant invests up to $30,000 per participant per year. The current cap of $5,000 in share value, which was proving to be too low to attract meaningful talent, will be scrapped. Further, there will be no limit on the value of shares that can be issued by the company each year, provided the $30,000 per participant per year restriction is adhered to. On top of the $30,000, the participant will also be able to invest 70% of the dividends and cash bonus that it receives on shares acquired through the ESS.

In the case of options, the proposed $30,000 per year investment limit can be accrued for up to five years. That is, where the participant is given an option to purchase shares in the future, the annual investment limit of $30,000 can be carried forward for a maximum of five years providing a maximum investment of $150,000 in the fifth year.

As a further welcome move, the Budget provides that the $30,000 annual investment limits will not apply at all if interests issued to employees under the ESS would immediately provide them with an exit event either by way of a planned sale of the company or listing of the company where participants are able to sell their purchased interest at a profit.

The Government has also announced that it will remove regulatory requirements for ESS interest offers to independent contractors, where they do not have to pay for the interests. Currently under tax law, all offers for ESS interests are to be accompanied by disclosure documentation such as an offer information statement.

The Budget has not stated the date on which the above changes will come into effect.

Overall, this is a positive move by the Government. The removal of the share value cap will enable larger participation and will do away with the need to undertake a valuation in case of ESS issuances by an unlisted company. The inclusion of the ability to accrue the cap on options also provides flexibility in structuring the ESS.

SMEs

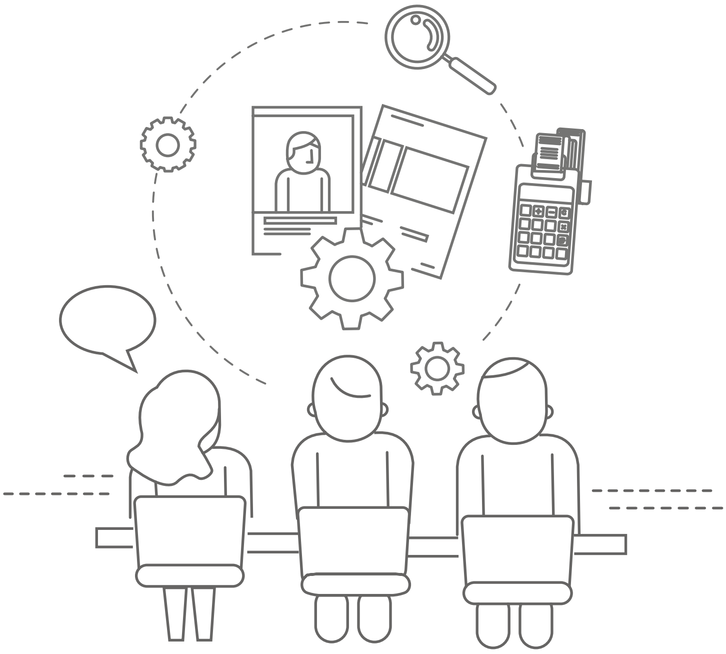
SMALL BUSINESS SUPPORT PACKAGE

- **The Government will supply over $25m to support small business initiatives over the next three years**

Small businesses will receive a modest support package to assist with the following initiatives:

- $10.4m to support improving efficiency and reporting of the Payment Times Reporting Portal and Register;
- $8.0m to enhance small business financial capability;
- $4.6m for free, accessible and tailored mental health support to small business owners; and
- $2.1m for financial counselling to small business facing financial distress.

These initiatives were previously foreshadowed on 13 January 2022 by the Acting Minister for Employment, Skills, Small and Family Business. They have now received the full backing of the Government in this year's Budget.



Comment:

The Government commits to supporting small business by focusing on improving efficiency, capability and support.

WINNERS

Business required to report on the Payment Times Report Portal and small business owners.

VARYING THE GDP UPLIFT FACTOR

- **The Government is reducing the Gross Domestic Product (GPD) uplift factor for Pay As You Go (PAYG) and Goods and Services Tax (GST) instalments**
- **The statutory uplift factor will be lowered to 2% for the 2022-2023 financial year, to provide businesses with cashflow support**

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Neither stimulus nor tax revenue

At the conclusion of each financial year, an entity will disclose its taxable income to the ATO by lodging an income tax return. This sets an expectation of income tax receivable from that taxpayer in the following year. To the extent such income tax arises from sources to which no prior withholding tax has applied (for example, PAYG withholding from salaries and wages), there is an expectation that income tax will be paid in advance by way of periodic instalments.

The income from which these instalments are derived is subject to an uplift using a statutory rate. The statutory rate at which this increase is applied is 10%, but for the 2022-2023 financial year this rate will be reduced to 2% for eligible SMEs. The SMEs that may be eligible for this change are those with:

- up to $10 million annual aggregated turnover for GST instalments; and
- up to $50 million annual aggregated turnover for PAYG instalments.

The changes will apply to those reporting periods falling after the relevant legislation receives Royal Asset.

SMEs will enjoy the cashflow benefit of paying a lower instalment amount throughout the tax year but will ultimately pay the same amount of tax upon the lodgement of their annual income tax return.

Comment:

High marks for the Government as it recognises the cashflow needs of Small to Medium Enterprises (SMEs) while trying to manage fiscal receipts.

WINNERS

SMEs will enjoy the short term cashflow benefit, but ultimately nobody wins.

SMALL BUSINESS SKILLS AND TRAINING

- **Bonus 20% deduction on costs to upskill staff through external training courses for small businesses with an aggregated turnover of less than $50m**
- **Applies to eligible expenditure incurred from 7:30pm AEDT 29 March 2022 until 30 June 2024**

100

Tax break for small businesses

The Government's skills and training boost will provide small businesses that upskill staff through external training courses an additional 20% of the costs as a deduction. The initiative was introduced with the aim of helping small businesses to "become more productive and competitive" in the market.

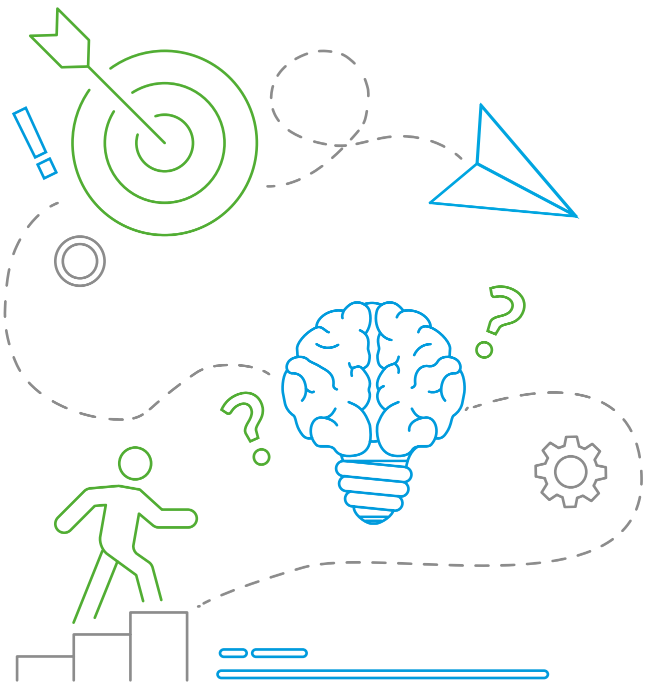
To be eligible, small businesses with an aggregated turnover of less than $50m will need to provide employees with external training courses delivered by Australian registered entities. The measure will exclude any in-house or on-the-job training provided, and expenditure which is incurred in relation to non-employees.

The boost will apply to eligible expenditure incurred from Budget night until 30 June 2024.

It is estimated 3.6m small businesses will benefit from this measure, providing tax relief of $550m.

WINNERS

Small businesses.



Case study:

Top Skills Pty Ltd is a small business with an aggregated turnover of less than $50m.

In 2023, Top Skills incurred eligible external training costs of $150,000 to upskill its employees. As a result of the Government's skills and training boost, Top Skills will be eligible to claim a tax deduction of $180,000 in its 2023 tax return. This amounts to a cash saving of $7,500.

COVID-19 RESPONSE PACKAGE

- **Key components of the COVID-19 Response Package are being extended and improved to continue to support businesses**
- **This includes maintaining the concessional tax treatment of various business support program payments, as well as ensuring the cost of a COVID-19 test remains tax deductible**

100

Making COVID-19 Business Grants Non-Assessable Non-Exempt (NANE)

This measure was originally announced on 13 September 2020 and sought to ensure that all COVID-19 business grant payments were to be treated as NANE for income tax purposes.

A designation that is usually reserved for exceptional circumstances, NANE tax treatment ensures that the full effect of the business grant can be utilised by the business, irrespective of its tax rate or entity structure.

The consequences of treating COVID-19 business grant payments as NANE are:

- the amounts received are non-assessable (ie tax free) to the taxpayer;
- the outgoings incurred in deriving such income are not deductible.

The NANE designation of this income does have further benefits for entities such as unit trusts, where a difference between trust income and taxable income can give rise to a capital gain. In these circumstances, any difference attributed to NANE income is disregarded.

The COVID-19 support programs that continue to enjoy this treatment are those that are the subject of a public health directive applying to a geographical area in which the business operates, and whose operations have been significantly affected by such a public health directive. The programs still available, to which a business may be eligible for this treatment, are as follows:

- New South Wales Accommodation Support Grant
- New South Wales Commercial Landlord Hardship Grant
- New South Wales Performing Arts Relaunch Package
- New South Wales Festival Relaunch Package
- New South Wales 2022 Small Business Support Program
- Queensland 2021 COVID-19 Business Support Grant
- South Australia COVID-19 Tourism and Hospitality Support Grant
- South Australia COVID-19 Business Hardship Grant.

Tax Deductibility of COVID-19 Test Expenses

In the eyes of the law, it was first considered that COVID-19 tests did not have a sufficient nexus to an income-producing activity to make them a deductible expense. Furthermore, as employers began to rely on such tests to ensure their workforce could perform their duties, providing these tests to their staff may have qualified as a fringe benefit, thus compelling the business to account for Fringe Benefits Tax (FBT).

The Federal Budget proposal will remove any such argument that might arise and will ensure that such expenses incurred by the employer will be deductible to the business and exempt from FBT. This is a win from a compliance and complexity point of view.

Comment:

The Federal Budget deserves a high score for maintaining the preferential tax treatment of COVID-19 support payments as it ensures the full effect of the payment is obtained.

Furthermore, a win for businesses who have certainty and confirmation that a COVID-19 test becomes a tax-deductible expense which will not be deemed a benefit under the Fringe Benefits Tax (FBT) rules.

WINNERS

All businesses

Case study:

ABC Unit Trust conducts a café business in the heart of Sydney's CBD. Due to difficult trading conditions and density restrictions, the business is struggling to make ends meet.

Under the NSW Small Business Support Program, ABC Unit Trust is eligible to receive $3,000 per week in support payments for the four week period of February 2022.

When ABC Unit Trust prepares its 30 June 2022 Trust Tax Return, although it experienced challenging trading conditions, it still returned an accounting profit of $100,000 for the year. The accounting income, however, will be $12,000 higher than its taxable income. Such a difference would usually give rise to CGT Event E4. However, as the difference is attributed to an amount which is designated as NANE, the difference is disregarded for Australian tax purposes.

Furthermore, as ABC Unit Trust needed to ensure it provided a safe working environment for all staff and patrons, all costs it incurred in supplying a COVID-19 test prior to attending work will be tax deductible and will not be subject to FBT.

INDIRECT TAX

- **A temporary halving of the current fuel excise rate from 44.2 cents to 22.1 cents, for a six-month period**
- **No substantive Goods and Services Tax (GST) related changes**
- **A number of streamlining measures have been undertaken to benefit fuel and alcohol producers, importers and distributors**
- **The current temporary tariff concessions for importing COVID-19 related products have been made permanent**

Temporary reduction in fuel excise

As a temporary and targeted cost of living measure, for a six month period commencing 30 March 2022 until 28 September 2022, the Government will halve the existing rate of excise and excise-equivalent customs duty currently applying to petrol and diesel from 44.2 cents per litre to 22.1 cents per litre. Given GST is added to the excise inclusive cost, the excise reduction will also reduce the amount of GST collected on fuel sales further reducing the retail price of petrol and diesel.

While the excise reduction will directly benefit consumers in the form of lower fuel prices, the measure may not benefit many businesses who currently claim fuel tax credits, other than a cash flow saving. The halving of the excise rate will have a corresponding impact on the rate of fuel tax credits, such that any saving in excise will be a reduction in fuel tax credits. For businesses claiming fuel tax credits for travel on a public road at the reduced fuel tax credit rate, it is likely that no fuel tax credits will be available for the six month period since the excise reduction will be greater than the current rate of fuel tax credits.

Taking into account the lower excise collections and reduced fuel tax credit claims, this measure is expected to cost $2.9b over the forward estimate period.

Tariff concessions for COVID-19 related products

From 1 July 2022 and over the next four years, the Government will permanently implement the current temporary tariff concessions in place for certain medical and hygiene products to treat, diagnose or prevent the spread of COVID-19.

The range of products to which the concession applies will also be expanded and the end-use restriction removed.

Streamlining the administration of fuel and alcohol producers, importers and distributors

The Government will implement a range of measures designed to benefit fuel and alcohol producers, importers, and distributors through streamlining the administration of fuel and alcohol excise and excise-equivalent customs goods. From 1 July 2023, the changes include:

- allowing eligible fuel and alcohol businesses (with an

annual turnover of less than $50m) to lodge and pay excise and excise equivalent customs duty on a quarterly basis, rather than weekly or monthly as is the current requirement;
- giving businesses that import fuel and alcohol products for further manufacture or distribution, the option to defer payment of excise or excise-equivalent customs duty by transferring the fuel or alcohol straight into a Border Force controlled warehouse;
- streamlining and aligning licensing requirements across the excise system, for example, by removing licence fees;
- amending the excise and excise-equivalent customs duty regime for fuel, for example by removing the requirement to pay and then claim fuel tax credits in respect of excise or excise equivalent customs duty on bunker fuels; and
- amending the excise law to provide a targeted exemption from excise licensing requirements (subject to certain limitations) for licensed hospitality venues relating to beer.

Indirect Tax Concession Scheme for specified countries

The Government has granted or extended access to refunds of indirect tax under the Indirect Tax Concession Scheme to the diplomatic and consular representations of Fiji, India, Indonesia, Latvia, Malaysia, Nauru, Papua New Guinea, the Taipei Economic and Cultural Office, the Democratic Republic of Timor-Leste, Tonga, Samoa, the Solomon Islands, the United Kingdom and Vanuatu.

Under the scheme, diplomatic and consular representations receive refunds for indirect taxes including GST, fuel and alcohol taxes.

The Government has also extended access to the scheme for Papua New Guinea and the Taipei Economic and Cultural Office to include construction and renovation costs relating to their current and future diplomatic missions and consular posts

GST receipts and changes

Receipts from GST are forecasted to decrease by 0.2 per cent in 2021-22 and increase by 9.1 per cent in 2022-23. Since the Mid-Year Economic and Fiscal Outlook (MYEFO), GST receipts have been revised up by $2.6 billion in 2022-23 and across the four-year forward estimate period to 2025-26, GST receipts are being revised up by $11.4 billion. These increases in GST receipt estimate are largely due to increased household consumption on items subject to GST.

Notwithstanding this net increase in GST revenue, there are no substantive GST-related measures announced in the Budget.

Varying the uplift factor for GST instalments

For the 2022-23 income year, the Government will amend the GDP uplift factor for GST instalments to 2%, down from the current 10%.

This measure is designed to provide small to medium enterprises with up to $10m in annual aggregated turnover with cash flow support, in the form of lower instalment payments throughout the income year.

Temporary deferral of "black economy" and Australian Business Register measures previously announced

In the 2019-20 Budget, the Government announced that it would seek to strengthen the Australian Business Number (ABN) system and disrupt black economy behaviour by requiring ABN holders to:

- lodge their income tax return if they have an income tax return obligation; and
- confirm the accuracy of their details on the Australian Business Register annually from 1 July 2022.

Currently, ABN holders are able to retain their ABN regardless of whether they are meeting their income tax return lodgement obligations or the obligation to update their ABN details.

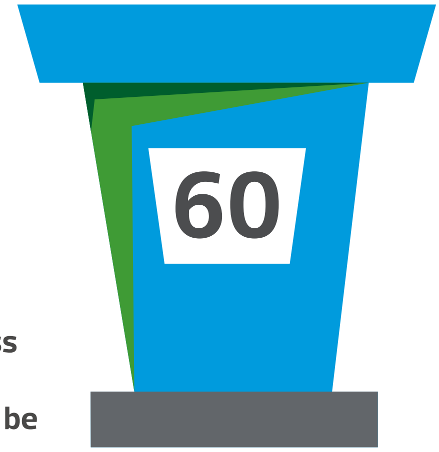
The Government will defer the start date of this measure by 12 months to assist with integration into the Australian Business Registry Services.

WINNERS

- All fuel users will benefit from the temporary fuel excise reductions through lower retail prices, though it is worth noting that many businesses will see no net savings as their fuel tax credits will be reduced by a corresponding amount
- Fuel and alcohol producers, importers, and distributors will benefit from the suite of streamlining measures
- Importers of COVID-19-related products will obtain certainty that their current temporary tariff concessions will be made permanent

INTERNATIONAL

- **The ATO receives a further significant tranche of funding, to extend the Tax Avoidance Taskforce into 2025 which impacts multinationals, whether or not they have engaged in tax avoidance**
- **Proposed simplification of Australia's foreign investment review and approval framework, to reduce the regulatory burden faced by prospective foreign investors**
- **Further expansion of the Patent Box regime, extending now from bio-tech into agri-tech and low emissions technology innovations, to increase Australia's attractiveness to some degree**



The Budget deserves an average score for taking further steps to address Australia's lack of international competitiveness, through the proposed expansion of the patent box regime – though further expansions should be considered.

INTERNATIONAL TAX MEASURES

Perhaps unsurprisingly, this Budget includes limited international tax measures. As with recent Budgets, there is nothing which fundamentally changes Australia's international tax regime or imposes additional tax on multinationals investing into Australia.

This Budget gives an average performance from an international tax standpoint.

Extension of Tax Avoidance Taskforce

The most significant proposal announced, from an international tax standpoint, is not in the form of legislative change, but in a significant tranche of funding for the ATO, to further extend the Tax Avoidance Taskforce into 2025.

The funding committed, totalling $652m, is forecast to result in the collection of additional tax payments of $2.1b.

This will likely result in continued and further compliance burdens for a number of multinationals – whether or not they are engaged in tax avoidance. Typically, for multinationals, this review activity has focused on transfer pricing and other international tax measures, many of which have been introduced in recent years.

Simplifying foreign investment framework

The Budget announces a proposed amendment to Australia's foreign investment framework, to reduce the regulatory burden faced by investors and support Australia's economic recovery.

The proposed changes seek to streamline the requirement for some investors to notify the Government before acquiring an interest in relevant Australian entities. However, the proposals do not deprive the Government of its ability to reject proposed acquisitions on national interest grounds, as with the current regime.

This proposal will be well received by foreign investors. Particularly during COVID-19, the Foreign Investment Review Board's turnaround time for approval requests was at times glacial, and there is a compelling case to de-regulate this process (whilst retaining appropriate checks).

PATENT BOX REGIME EXPANSION

The proposed further expansion of the Patent Box regime from biotech into agri-tech and low emissions technology innovations are welcome developments, which are a step in the right direction in terms of increasing Australia's attractiveness vis-à-vis its global peers, in the battle to attract investment capital. However, there is significant room for further expansion of this regime, with there being a case to be made that it could cover all patents and potentially software as well.

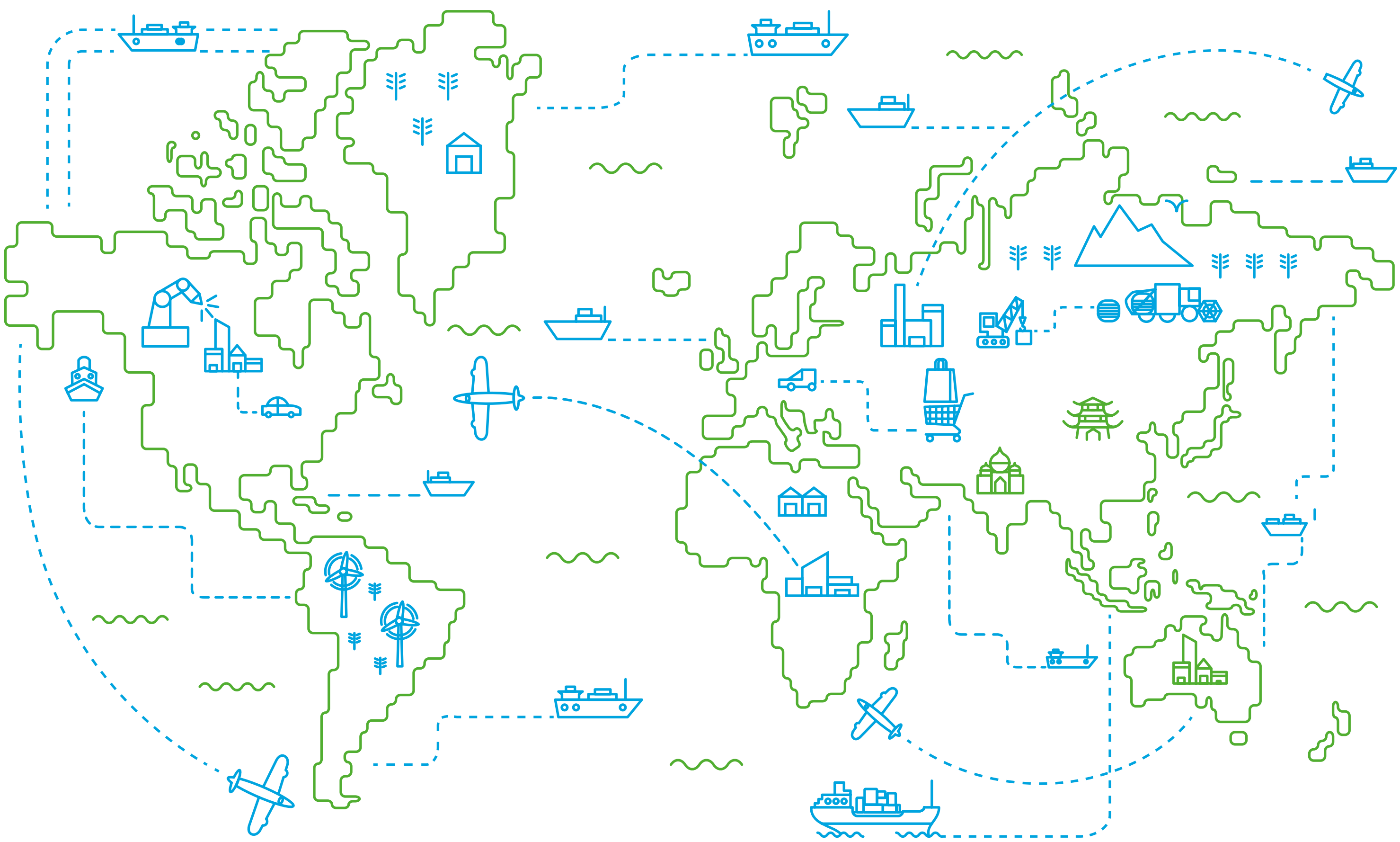
WINNERS

- Foreign investors looking for simplification of foreign investment review/approval process
- Australian companies carrying out R&D activity in the agricultural or low-emissions technology sector, who are looking to attract foreign capital or would otherwise consider relocating offshore

LOSERS

- Multinationals, as well as larger corporates and high net wealth (HNW) individuals, who may already be fatigued by spending quality time with the ATO — as well as money with their advisers — in responding to in-depth reviews

Further details on the Patent Box regime are discussed separately in the Innovation section.



INDIVIDUALS

- **An extra $420 in tax relief for individuals earning up to $120,000**
- **Medicare levy low-income thresholds increase from 1 July 2021**
- **No change to individual income tax rates.**

ONE-OFF COST OF LIVING TAX OFFSET

The Government will increase the low and middle income tax offset (LMITO) for the 2021-22 income year in a bid to combat the rising cost of living for low and middle income earners.

The proposed change will add another $420 to the current LMITO, resulting in the maximum offset increasing to $1,500 for an eligible single income household or $3,000 for an eligible dual income household (up from $1,080 and $2,160).

The proposed change will be paid from 1 July 2022 when Australians lodge their tax returns for the 2021-22 income year.

Individuals with an income of up to $126,000 will benefit from the LMITO, with the full benefit of $1,500 available to those earning between $48,000 - $90,000 per annum. The LMITO then phases out as an individual's income reaches $126,000.

All other features of the current LMITO remain unchanged (including that it will not apply to taxpayers with income of $126,000 or more).

The one-off $420 cost of living tax offset will only apply to the 2021-22 income year as the Government did not announce an extension to the LMITO to 2022-23.

Taxable income	LMITO (current)	LMITO (proposed)
$37,000 or less	$255	$675
From $37,001 to $48,000	$255 + 7.5 cents for every dollar above $37,000, up to a maximum of $1,080	$675 + 7.5 cents for every dollar above $37,000, up to a maximum of $1,500
From $48,001 to $90,000	$1,080	$1,500
From $90,001 to 126,000	$1,080 minus 3 cents for every dollar of the amount above $90,000.	$1,500 minus 3 cents for every dollar of the amount above $90,000.
$126,001 +	Nil	Nil

Comment:
A quick fix for the rising cost of living

PERSONAL TAX RATES REMAIN UNCHANGED

The Government will increase the low and middle income tax offset (LMITO) for the 2021-22 income year in a bid to combat the rising cost of living for low and middle income earners.

The Budget did not announce any personal tax rate changes. The Stage 3 tax changes commence from 1 July 2024, as previously legislated.

These legislated changes are headlined by the 32.5% marginal tax rate being cut to 30% for one large tax bracket between $45,000 and $200,000.

MEDICARE LEVY LOW INCOME THRESHOLDS

The Medicare levy low-income thresholds exempt low-income Australian taxpayers from paying the Medicare levy. From 1 July 2021, the thresholds will increase for singles, families, seniors, and pensioners as well as for each dependent child or student.

Announced changes to the low-income thresholds are as follows:

Australian Taxpayer	Threshold to 30 June 2021	Threshold from 1 July 2021
Singles	$23,226	$23,365
Families	$39,167	$39,402
Seniors & Pensioners	$36,705	$36,925
Family of Seniors & Pensioners	$51,094	$51,401
Each Dependent Child	Add $3,597	Add $3,619

Case studies:

Corey

Corey's taxable income is $85,000. As Corey's income is more than $48,000 but less than $90,000, he is eligible for a LMITO of $1,500. Corey's tax payable can be reduced by up to $1,500 using the LMITO.

Tracey

Tracey's taxable income is $100,000. Tracey's income is more than $90,000 but less than $126,000. She is eligible for the LMITO amount of $1,500 minus 3 cents for every dollar her income is above $90,000. That is:

$100,000 – $90,000 = $10,000

$0.03 × $10,000 = $300

$1,500 – $300 = $1,200

Tracey's tax payable can be reduced by up to $1,200 using the LMITO.

Will and Jane

Will and Jane have fallen on hard times and have a combined family income of $45,200 for the year ending 30 June 2022. Will and Jane disclose on their individual income tax returns that they have two dependent children, Lucas and Emma. Will and Jane will not be liable for the 2% Medicare levy as their combined family income does not exceed the low-income threshold adjusted for two dependent children. Their family low-income threshold in the financial year ending 30 June 2022 is $39,402 plus $3,619 for each dependent child — being a total threshold of $46,640.

COST OF LIVING

The Government will provide a one-off payment to welfare recipients to ease the rising cost of living, but at $250, how much respite will it actually provide?

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The rising cost of living has been a key theme in the lead-up to the Budget, and the Government has focused its attention on welfare recipients, with a one-off cost of living payment to help ease the pressure on individual budgets. This is on top of existing indexing arrangements for the Age Pension, Disability Support Pension and Carer Payment rates.

Pensioners, carers, veterans, job seekers and other eligible concession cardholders, as well as some self-funded retirees, will receive a single, tax-exempt payment of $250. This will benefit around six million Australians, with the first payment coming in April 2022.

The payment will be a welcome boost to welfare recipients, for whom the rising cost of living will bite hardest on the family budget. However, in a practical sense, this will provide little respite when taking into account the significant recent increases in petrol and fresh food prices in particular. For a pensioner couple, this may cover groceries for a matter of weeks, which is unlikely to ease concerns for many, if any, households beyond April 2022.

Comment:

An apparent boost for welfare recipients, but how much will it actually help?

WINNERS

Welfare recipients, in April 2022

Case study:

Joan & Bob

Joan and Bob receive the Age Pension. This payment will mean an extra $500 ($250 each) paid to them in April 2022, as well as an additional $390 over the next six months due to the indexation of pension payments with effect from March 2022.

A single Age Pensioner, Grace will receive an extra $510 in additional income support over the next six months, taking into account the one-off payment and indexation.

AFFORDABLE CHILD CARE

Child care made more affordable for families

WINNERS

Working parents with more than one child. Parents returning to the workforce.

80

Increasing child care subsidies

In an effort to encourage and support workforce participation by women, the Government is further extending the child care support package introduced in last year's Budget, with the two key announcements as follows:

- increasing subsidy rate for families with more than one child attending child care; and
- removal of the annual cap on the amount of child care subsidy for families with income above $189,390.

This effectively means families now receive a 50% subsidy for their first child in child care and an additional 30% subsidy for the second and subsequent children. These changes took effect from 7 March 2022.

The Government has also proposed to remove the annual Child Care Subsidy cap. This means families with a combined income of between $190,000 and $354,000 can expect 50% of their child care fees to be covered by child care subsidies. The removal of such caps will be applied retrospectively and reimbursed for the full 2021-2022 financial year.

Case study:

Simon and Laura both work full-time, earning a combined income of $200,000 pa They have two children attending child care. Under the changes to the child care subsidy that started in March, Simon and Laura will receive a subsidy of 80% for their second child, compared to 50% under the previous scheme, (ie an additional 30%). These new changes will save the family around $130 per week or around $6,500 per year.

DIGITALISATION OF TRUST REPORTING

- **The Digital Government strategy will shortly extend into the realm of trust and beneficiary tax reporting**
- **Pre-filling of data into tax returns is proposed to be rolled out from 1 July 2024**

60

A small win for trusts and beneficiaries in the Budget, with the Government announcing digitalised reporting measures, to bring trust and beneficiary income reporting into the 21st century.

Under the proposed measures, trust tax returns lodged electronically will have the benefit of accessing increased pre-filled data, entered automatically by the ATO. These measures are aimed at reducing the compliance burden on taxpayers and will assist with ATO processing times through the automation of their assurance processes.

Similar pre-filling data was first made available to individuals from the 2009 income year, leaving trusts trailing behind for over a decade. However, trusts and their beneficiaries will have to wait a little while longer with the streamlined reporting measures earmarked to commence from 1 July 2024, after proper consultation with relevant software providers.

Comment:

A small win for trust reporting.

WINNERS

Trusts and their beneficiaries due to simplified compliance, as well as the ATO through enhanced assurance.

SUPERANNUATION

Retirees were able to breathe a sigh of relief with the release of the Federal Budget, with the Government abiding by an earlier promise to limit further changes to an ever-evolving superannuation system. The only measure announced was the extension of the 50% minimum pension drawdown reduction.

Federal Budget deserves a high score for leaving superannuation alone!

A measure that has been used previously during the global financial crisis, the reduction in the minimum pension drawdown requirement was introduced most recently in the 2020 financial year to ease the strain of financial uncertainty caused by the global pandemic. This measure, which halves the minimum pension requirement for retirees drawing an income stream from superannuation, was due to expire on 30 June 2022. The Federal Budget has extended this reduction until 30 June 2023, to avoid retirees having to sell assets in a time of financial volatility to meet pension conditions.

The standard rates and current extended reduction rates are as follows:

Age of beneficiary (years)	Standard percentage factor (%)	Minimum drawdown for 2019-20 to 2021-22 (and 2022-23 proposed) (after 50% reduction) %
0-64	4	2
65-74	5	2.5
75-79	6	3
80-84	7	3.5
85-89	9	4.5
90-94	11	5.5
95+	14	7

The reduction applies to account-based pensions, allocated pensions and market-linked pensions, and effectively halves the percentage required to be withdrawn.

WINNERS

Retirees drawing income streams from superannuation

Case study:

John and Laura have a self-managed superannuation fund, and are both currently drawing a pension. Their fund has invested in a listed share and managed portfolio, and they have seen some serious movements in the value of their assets over the last few months.

John has been watching the market fluctuations nervously, and is worried about future impacts of the Russia/ Ukraine war, as well as the continued global pandemic.

The extension of the minimum pension reduction means John and Laura have enough cash to cover their pension for both the 2022 and 2023 years, without the need to sell down investments.

INNOVATION

- **Patent Box Regime**
  - The Patent Box regime, taxing corporate income derived from patents at a concessional rate of 17%, will further be expanded to include agricultural sector innovations and low emissions technology innovations for Plant Breeder's Rights.
- **Other Innovation Measures**
  - A research reform package providing $988.2m over five years from 2021–22, and around $325.1m annually, on an ongoing basis, proposes to drive university-industry collaboration, workforce mobility, research translation and commercialisation.
  - An additional $1.3b will be committed under the Medical Research Future Fund (MRFF) Ten Year Investment Plan

Whilst the proposed measures steer Australia in a positive direction with respect to innovation, Intellectual Property (IP) development and IP ownership, the benefits and incentives offered by alternative jurisdictions must be considered, and in many cases overshadow the Australian equivalents.

In a continuation of support for Australian innovation, the Government has announced a proposed expansion of the existing Patent Box tax regime introduced in the 2021-2022 Budget.

Historically, Australia has been regarded as a relatively unattractive jurisdiction in which to own IP based on its comparatively high tax rate and limited relief by way of amortisation. As such, the Patent Box regime intends to incentivise companies to retain and commercialise patented inventions, and pursue patents for new inventions, within Australia. Whilst this is a welcome development, alternative jurisdictions, such as Singapore at 5% or 10% and the UK at 10%, offer significantly lower concessional rates in similar regimes, without the industry limited scope of the Australian regime.

The initial Patent Box regime, targeting the Australian medical and biotechnology sector, was tabled into Federal Parliament on 10 February 2022. For more information, see our article here: www.rsm.com.au/insights/tax-insights/patent-box-tax-concessions-explained

The proposed expansion to the Patent Box tax concession includes a broader range of patented innovations in the agricultural sector and for low emissions technologies. Specifically, the concessional tax treatment will be provided in relation to commercialised patented technologies which:

- for innovations in the agricultural sector, are linked to agricultural and veterinary (AgVet) chemical products listed on the Australian Pesticides and Veterinary Medicines Authority (APVMA), PubCRIS (Public Chemicals Registration Information System) register, or eligible Plant Breeder's Rights PBRs); and
- for innovations in low emissions technology, fall within the 140 technology areas listed in the Government's 2020 Technology and Investment Roadmap Discussion Paper or are included as priority technologies in the Government's 2021 and future annual Low Emissions Technology Statements, and are considered to reduce emissions.

To complement to the existing R&D tax incentive, the expanded scope of the Patent Box regime will improve Australia's competitiveness as a jurisdiction for IP development and ownership in key focus industries within the economy. The design and scope of the extended Patent Box regimes will be subject to further industry consultation.

On the theme of research commercialisation, the Government has further announced a research reform package totalling $998.2m (plus continued annual funding) providing targeted funding in the form of new grants, training pathways, investment funding and translation programs targeting University collaboration and research commercialisation.

In the 2020 World Intellectual Property Organisation (WIPO) Global Innovation Index ranks, Australia was ranked as the 23rd most innovative country overall, yet 40th in knowledge and technology outputs. With notably high levels of quality higher education institution research, the reform package provides funding and opportunity to the early-stage research and development cycle, complimentary to the profit-dependent benefits of the Patent Box regimes.

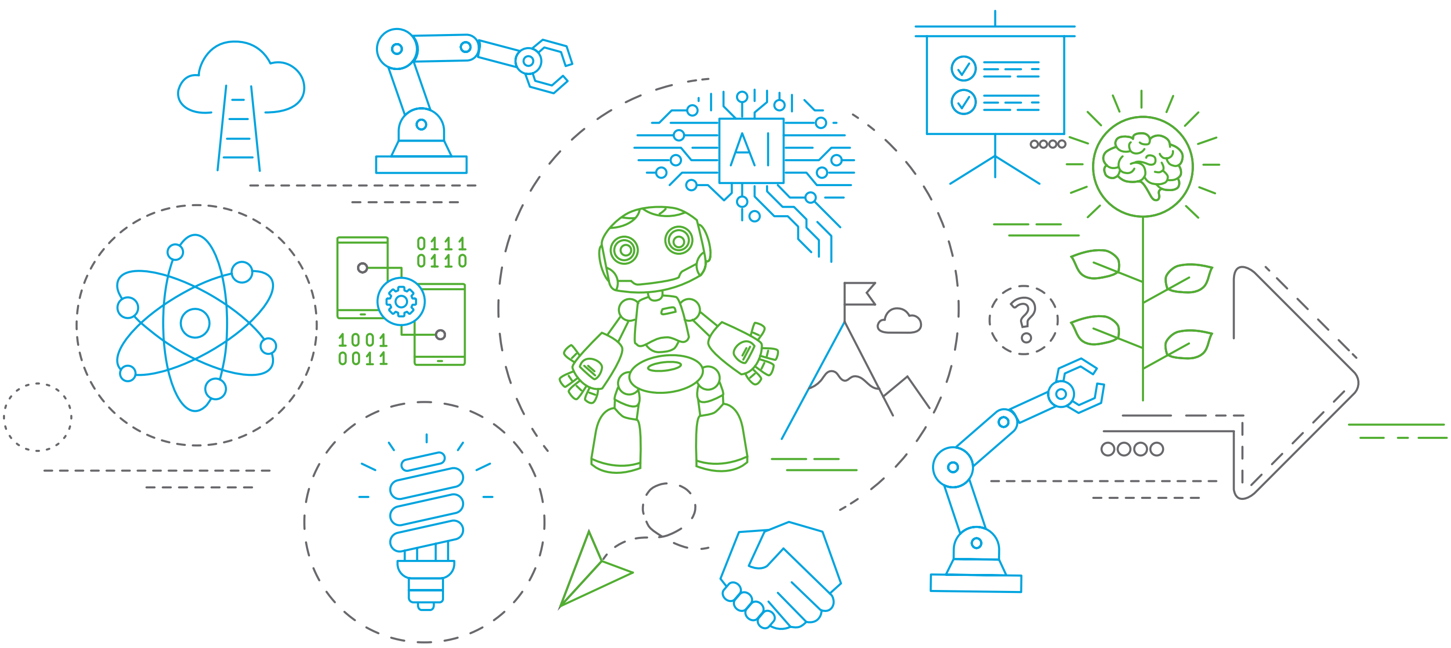
Similarly, further investment of $1.3b under the Medical Research Future Fund (MRFF) Ten Year Investment Plan intends to provide research funding in relation to the translation of medical innovation to medical practice, support clinical trials and the adoption of innovative treatments, and progress medical researcher skills.

WINNERS

- Large companies developing IP in Australia relating to MedTech, BioTech, AgriTech and Clean Energy technologies. In addition to the R&D tax incentive, a Patent Box regime provides a further incentive for companies in the relevant sectors to retain commercialisation rights to exploit the IP in Australia rather than potentially transferring such activities overseas to more tax friendly jurisdictions.
- Early-stage researchers and innovators who will benefit from improved University collaboration opportunities, pre-commercialisation funding opportunities, and training and translation programs to promote the conversion of research to commercial output.

LOSERS

- Patent Box regimes typically benefit larger companies, which are generating a commercial return from their patent-protected products. As such, sectors outside of those stated sectors as well as start-ups and SMEs who are pre-revenue and in a tax loss position are unlikely to benefit from such a regime in their early stages. Software developers will generally not benefit from Patent Box regimes, as software code is typically not amenable to the grant of a patent.
- The proposed additional regimes largely target the research and prototyping phases of the development cycle. As such, innovators with a market-ready product, though insufficient funds for production and market development, are unlikely to benefit from the proposed measures.



INDUSTRY: TECHNOLOGY

- **Small Business Technology Investment Boost** – the government will provide $1b of tax incentives to provide a technology investment boost for small businesses
- **Digital Economy Strategy** – $130.1m over four years to further build on the Digital Economy Strategy initiatives introduced in the 2021–22 Budget

Small Business – Technology Investment Boost

This Budget measure provides increased support for small businesses that invest in technology. This measure will provide small businesses with a bonus 20% tax deduction for expenses and depreciating assets up to $100,000 per year that support digital uptake.

The Small Business Technology Investment Boost is aimed to support digital adoption by small businesses. The boost will apply to eligible expenditure incurred from 7:30pm (AEDT) on 29 March 2022 (Budget night) until 30 June 2023, so can effectively apply across two income years.

Small businesses (with aggregated annual turnover of less than $50m) will be able to deduct an additional 20% of the cost incurred on business expenses and depreciating assets that support their digital adoption, such as portable payment devices, cyber security systems or subscriptions to cloud-based services.

An annual cap will apply in each qualifying income year so that expenditure up to $100,000 will be eligible for the boost.

Digital Economy Strategy

$130.1m has been committed to build on the Digital Economy Strategy introduced in the 2021–22 Budget to drive digital transformation. This includes additional funding to support women taking up Science, Technology, Engineering and Mathematics (STEM) careers in technology, providing $3.9m over two years from 2022–23 to support more women to take up digitally skilled roles. In this Budget, small businesses get a kick for any future technology investment, however, there is little to further incentivise large businesses to do so, or for investments over $100,000 per annum.

The 2022–23 Budget delivers $130.1m over four years to provide the following measures which build on Australia's existing Digital Economy Strategy. These include:

- $38.4m over three years from 2022–23, and $12.6m per year ongoing from 2025–26 to implement the Government's response to the Inquiry into the Future Directions for the Consumer Data Right.
- $30.2m to extend the whole of government cyber hubs pilot, including the establishment of a fourth Cyber Hub Pilot in the ATO.
- $18.6m over four years from 2022–23 (and $3.2m per year ongoing) to shape global critical and emerging technology standards.

Comment:

Whilst it's good news that the government is expanding on the Digital Economy Strategy introduced in the previous Budget, both this and the Small Business Technology investment Boost seem relatively lacklustre compared to previous years' technology focussed announcements.

- $13.6m over four years from 2022-23 to continue the Office of Future Transport Technology and support the digitalisation of the transport sector.
- $6.2m over two years from 2022-23 to position Australia as a world leader in regulating the Digital Economy and new technologies and the development of a Digital Age Policy.
- $4.8m to continue the Digital Technology Taskforce for a further two years.
- $3.9m over two years from 2022-23 to support women to pursue career opportunities in Australia's growing tech workforce.
- $1.8m in 2022-23 to the Digital Transformation Agency to further support the development of the Digital Identity system, including the governance, regulatory frameworks and funding arrangements associated with the Digital Identity legislation.

There will also be additional funding provided to the Department of Industry, Science, Energy and Resources to further invest in the Australian quantum computing industry to support growth and fast track technology development.

In addition, there has been a further commitment to technology for the following areas:

- A further $1.3b over six years to improve regional telecommunications and connectivity, through addressing mobile blackspots and for the NBN Co to upgrade its fixed wireless and satellite networks to improve services in regional, remote and peri-urban Australia.
- In relation to the environment, the Government will provide the Great Barrier Reef with an additional $1b in funding, some of which will cover the deployment of new climate adaptation technology.

Case study:

Small Business – Technology Investment Boost

During the period between 7:30pm on 29 March 2022 and 30 June 2022, Whizz Co spends $10,000 as well as purchasing a $20,000 depreciating asset, both of which support their adoption of digital technologies (items such as portable payment devices, cyber security systems, e-invoicing, web design or subscriptions to cloud-based services). They will then receive an additional 20% deduction on these costs of $6,000. The additional deduction ("boost") of $6,000 for eligible expenditure incurred during this period will be claimed in Whizz Co's tax return for 2022-23.

Whizz Co then spends a further $150,000 on expenses in relation to the adoption of digital technologies in 2022-23. Due to the annual cap on qualifying expenditure, only $100,000 will be eligible for the boost. Therefore, the company will receive an additional 20% deduction on this $100,000 of $20,000. This additional deduction for eligible expenditure incurred during this period will be claimed in Whizz Co's tax return for the year in which

WINNERS

- Small businesses (<$50m aggregated turnover) who decide to adopt and invest in a more technology focussed strategy

LOSERS

- There is little incentive for large businesses to further invest in their technology or digital strategy

INDUSTRY: AGRIBUSINESS

WINNERS

- Carbon credit and biodiversity certificate income recipients
- Agribusiness looking to invest in digital on-farm technologies

LOSERS

- Agribusinesses looking to benefit from up-front tax savings on large capital investments post 1 July 2023
- Agribusinesses looking for relief on high input costs

- **Tax breaks for primary producers with carbon credit or biodiversity credit income**
- **Tax incentives for farm software and digital adoption such as livestock tracking**
- **No planned extension of immediate deductions for farm machinery and sheds beyond 30 June 2023**
- **Tax deduction boost for external training and upskilling of employees**

A WIN FOR AGRIBUSINESSES WITH CARBON CREDITS INCOME

Tax breaks for carbon credits

Agribusinesses in receipt of Australian Carbon Credit Units (ACCUs) or biodiversity certificates will have previously had this income taxed as non-primary production income, making this income ineligible for the Farm Management Deposits (FMD) and primary production averaging schemes.

From 1 July 2022, income from these sources will be treated as primary production income, allowing eligible agribusinesses to both utilise the FMD and averaging systems to better manage their cash-flow and tax positions.

Important to note that this measure applies only to entities previously eligible for the FMD and averaging systems. Agribusinesses trading through companies will therefore not benefit.

GREAT OPPORTUNITY FOR AGRIBUSINESS TO INVEST IN DIGITAL TECHNOLOGIES

Digital investment

The Budget provides an additional 20% tax deduction on eligible digital adoption spending from Budget date until 30 June 2023 for agribusinesses with turnover of less than $50 million.

This includes subscription costs for cloud-based farming software and bookkeeping programs such as Xero, QuickBooks and Figured. Importantly, it also includes spending in relation to digital tracking for livestock.

The measure is capped at total spend of up to $100,000, with all additional deductions able to be claimed in the 2022-23 financial year tax returns.

Reduction in fuel excise

The Budget includes a 50% reduction in fuel excise for the next six months, which will reduce the fuel delivery price for agribusinesses by 22.1 cents (plus GST) until 28 September 2022. With many agribusinesses currently dealing with record high input prices, this short-term relief on a major cost may appear welcome.

However, it is important to note that a corresponding reduction in fuel tax credits normally claimed through Business Activity Statements has been implemented. Therefore, the net saving to agribusinesses for any fuel used on-farm by machinery such as tractors and farm bikes is nil.

Further details of the fuel excise changes are included in the Indirect Tax section.

Immediate deduction for plant & equipment

The temporary full expensing measures have proven very popular for farmers investing in high-value machinery and drought-proofing infrastructure. The Budget re-affirms the current end date for this measure of 30 June 2023.

While this is subject to change, at this point agribusinesses have until 30 June 2023 to claim full and immediate tax deductions for:

- all new and second-hand plant and equipment (with some restrictions on cars)
- the construction of sheds and eligible farm buildings including hay, machinery and wool sheds

The Budget also includes various miscellaneous proposals, including the following:

- tax rebates for agribusinesses that engage external registered training providers to train and upskill their employees
- additional funding to expand and extend the AgMove program to 31 December 2022 to support the relocation of job-seekers taking of short-term harvest work in Australia
- $12 million of funding over three years to support large agricultural trade events
- a further $139.9 million of funding over three years for projects across the Murray-Darling Basin

Case study:

In the 2022-23 financial year WKBL Farms Pty Ltd, a profitable company with an annual turnover of $8 million, finalises the purchase of $48,000 of GPS-enabled cattle ear tags and associated software subscriptions.

Also in the same year, the business incurs costs of $2,000 in Xero & Figured software subscriptions to assist with record-keeping obligations, farm budgeting and profitability tracking.

While the actual out-of-pocket costs for these investments totals $50,000, the company is eligible to claim 120% of the total expenditure ($60,400) as a tax deduction.

With a company tax rate of 25%, WKBL Farms Pty Ltd will be eligible for an additional $2,500 reduction in tax payable as a result of this new measure.

INDUSTRY: HEALTH

- **Targeted support for women and families**
- **Continued investment in COVID-19 battle lines**
- **Continued improvement in the aged care system**
- **Mental health now a headline item**

The Government has invested heavily in COVID-19 related support to the tune of $6.05b, plus a commercial-in-confidence agreement with Moderna to commence manufacturing of mRNA vaccines in Australia, in Victoria.

Women were particularly supported in the Budget with a Women's Health Statement and various targeted measures.

Other well-supported areas include mental health, rural care, aged care and Medicare.

Continuing COVID-19 response packages

The Government has committed a total of $6.05b to COVID-19 response packages. $4.8b of this is to be spent in the next two years as follows:

- $2.6b is provided for the procurement and distribution of rapid antigen tests and personal protective equipment;
- $1.1b is provided for the support of hospitals and extension of the current national arrangements with the States in relation to the response to COVD-19; and
- $1b for the continued distribution and uptake of COVID-19 vaccines.

In addition, the Government has announced:

- $458m over five years for COVID-19 related support in the aged care sector; and
- $892m to guarantee Medicare and access to medicines in relation to COVID-19.

mRNA vaccine manufacturing

The Government has executed an agreement with Moderna to establish sovereign mRNA vaccine manufacturing capability in collaboration with the Victorian Government.

The facility will be based in Victoria and will provide Australia with priority access to mRNA vaccines, and support research and development and domestic preparedness for possible future pandemics.

Aged Care

The Government will provide $468.3m over five years from 2021-22 to further implement the Government's response to the Royal Commission into Aged Care Quality and Safety, in order to improve transparency and regulatory standards and continue ongoing reforms announced in the 2021-22 Budget. These funds will be spread across five pillars:

- Pillar 1 – Home Care
- Pillar 2 – Residential Aged Care Services and Sustainability
- Pillar 3 – Residential Aged Care Quality and Safety
- Pillar 4 – Workforce
- Pillar 5 – Governance

Pharmaceutical Benefits Scheme (PBS) new and amended listings

$2.4b over five years has been provided for new and amended listings on the PBS. The Treasurer highlighted the drug Trodelvy (T), which treats a rare form of breast cancer and costs patients up to $80,000 per treatment.

Lowering the PBS Safety Net thresholds

The Government will provide $525.3m over four years from 2022-23 to reduce the PBS Safety Net thresholds. Patients will therefore reach the PBS Safety Net sooner each year, with approximately 12 fewer scripts for concessional patients and two fewer scripts for general patients in a calendar year. On reaching the PBS Safety Net threshold, concessional patients receive their PBS medicines at no cost for the rest of the calendar year and general patients receive their PBS medicines at the concessional co-payment rate (which is currently $6.80 per prescription). This measure supports individuals and families who have a high demand for prescription medicines due to their health needs. It is estimated that around 2.4m Australians will benefit from this change. The change to the PBS Safety Net thresholds will take effect from 1 July 2022.

Prioritising mental health

The Government will provide $547.0m over five years from 2021-22 to fund mental health Stage 2 reforms, through the five pillars of the National Mental Health and Suicide Prevention Plan. This expenditure includes ongoing support for Lifeline, early intervention and prevention monitoring programs for 'at risk' Year 8 students, funding of nationally consistent mechanisms to better manage mental health and wellbeing concerns in schools, funding to ensure continued access to services for young Australians and other support programs.

Women's Health Package

The Government will provide $163.3m over four years from 2022-23 for a package of initiatives to improve women's health and further support the implementation of the *National Women's Health Strategy 2020-2030* (the Strategy). Funding includes:

- support for endometriosis diagnosis and primary care support
- supporting priority populations and addressing cardiovascular disease
- tackling the health impacts of violence against women
- support for maternal health bereavement
- fighting cancer including support for the McGrath Foundation

Over and above this, the Government is making a significant investment of $1.3b in the National Plan to End Violence against Women and Children. This is in addition to the abovementioned listing of Trodelvy, as used in the treatment of a rare form of breast cancer.

Guaranteeing Medicare

The Government will provide $490.3m in relation to Medicare to:

- continue growth in digital health and security of data including My Health Record and Health Care Identifiers Service
- improve patient access to MRI services
- support new and amended MBS listings which will broaden covered medical services
- strengthen primary care by better dental care and support of Primary Health Networks, supporting the Palliative Care Service Navigation pilot, improving access to allied health services for deaf and non-English speaking Australians and supporting the allied health workforce
- improve access to health services and support doctors delivering primary care in rural and remote Australia and support for the delivery of telehealth

Fighting cancer

The Government will provide $423.7m over five years in relation to specialist facilities and research to fight and prevent cancer.

Industry perspectives:

PBS — no movement in the general co-payment a "squandered opportunity" says the Guild

The Pharmacy Guild of Australia released a contemporaneous statement expressing disappointment that the Government did not address the cost of medicines to Australians by lowering the maximum general co-payment.

The National President of the Pharmacy Guild, Professor Trent Twomey, said the Government had squandered an opportunity to help millions of Australians better access critical medicines, relieving hip pocket pressures for working families and reducing the burden of preventable disease on our hospitals and emergency services.

"The maximum general co-payment for the PBS is now $42.50 and will keep rising every year hitting $50 by the end of the decade," Professor Twomey said.

WINNERS

- Australians generally, through ongoing COVID-19 support
- Patients suffering from certain diseases, which will be targeted through better PBS support
- Women through specifically targeted health expenditure
- Patients who require a large number of prescriptions

LOSERS

- Arguably all Australians who are not Concession Card holders, because the general co-payment on prescriptions has not been lowered

INDUSTRY: PROPERTY

- **Some ongoing support for first home buyers and businesses operating in the property sector with the Government undertaking to extend its Home Guarantee Schemes to increase home ownership**
- **A significant outlay on national infrastructure projects with increased spending on major road and rail works**

For the property sector, while first home buyers will welcome the extension of the Home Guarantee Scheme, more could be done to address the issue of housing affordability, including greater support for the industry to build more houses.

For construction and infrastructure, the sectors will no doubt welcome the significant spending announced on national infrastructure projects..

Economic outlook

The Government's economic outlook for the property sector has forecast dwelling investment to grow by 5% in 2021-22 and a further 3.5% in 2022-23. Low interest rates, rising housing prices and Government incentives have contributed to a significant pipeline of work yet to commence in the sector. The outlook suggests that rising interest rates will increase the cost of borrowing, placing downward pressure on housing prices and softening demand for investment in new housing. While this is expected to weigh on dwelling investment and contribute to a 0.5% fall in 2023-24, the Government considers the existing pipeline of work will support investment to remain at elevated levels.

Despite the existing pipeline of work, inflation and ongoing supply chain issues continue to put pressure on the housing construction sector. Building material and labour shortages, poor weather, along with COVID-19 outbreaks and related restrictions on activity, have increased construction costs and completion times for new dwellings. The Government considers that these supply-side pressures have constrained dwelling investment in recent quarters, particularly for detached houses.

Home Guarantee schemes continue

Housing affordability remains a hot topic. As part of the Federal Budget, the Government has announced the expansion of its Home Guarantee Schemes which aim to help first homeowners get into the property market.

WINNERS

- First home buyers
- Construction and infrastructure industries

The Government has stated that it will increase the number of guarantees under the Home Guarantee Schemes from 25,000 up to 50,000 per year for three years from 2022-23 and then 35,000 a year ongoing to support homebuyers to purchase a home with a lower deposit.

The guarantees are proposed to be allocated:

- 35,000 guarantees per year ongoing for the First Home Guarantee (formerly the First Home Loan Deposit Scheme). The scheme aims to support eligible first home buyers to build or purchase their first home by providing a guarantee to participating lenders for up to 15% of the property purchase price, enabling prospective first home buyers to purchase their first home with a 5% deposit.
- 5,000 places per year to 30 June 2025 for the Family Home Guarantee. The scheme focuses on assisting single parents to purchase a home by providing a guarantee to participating lenders for up to 18% of the property purchase price, enabling individuals to purchase their first home with a 2% deposit.
- 10,000 places per year to 30 June 2025 for a new Regional Home Guarantee. The new scheme will support eligible citizens and permanent residents who have not owned a home for five years to purchase a new home in a regional location by providing a guarantee to participating lenders for up to 15% of the property purchase price, enabling prospective regional home buyers to purchase a new home in a regional location with a 5% deposit.

The Government has costed these initiatives at $8.6m over four years from 2022-23 and $138.7m over seven years from 2026-27, with $20.5m per year ongoing from 2033-34.

The Government has also stated that it will increase the Government guaranteed liability cap of the National Housing and Finance Investment Corporation (NHFIC) by $2.0b to $5.5b to enable NHFIC to support increased loans through the Affordable Housing Aggregator, which increases support for affordable housing.

The extension of these existing schemes and the introduction of the new Regional Home Guarantee will no doubt be welcomed by home buyers and those in the property and construction sectors alike. While the schemes will help many families get into the property market, more could be done to address the issue of housing affordability long-term including greater support for the industry to build more houses.

Increased infrastructure spending

The Federal Budget includes some significant infrastructure spending as outlined below.

The Government proposes to invest to diversify growing regional areas, through committing $7.1b for transformative infrastructure projects, including in four regions primed for growth:

- $2.6b for infrastructure that unlocks the Northern Territory's exports through Darwin's gateway to Asia, and a further $300.6m to improve water security in the greater Darwin region
- $1.7b for water infrastructure and supply chain projects in North and Central Queensland
- $1.5b in the Pilbara region to help diversify the north-west economy by increasing low emissions production
- $750.0m for the Hunter region for transport and port infrastructure projects that will improve supply chain efficiency and boost exports

The Government has also committing to build $17.9b of priority road and rail infrastructure as part of the $120b 10-year infrastructure investment pipeline including:

- $3.1b for the Melbourne Intermodal Terminals Package and related infrastructure
- $2.7b for the Brisbane to the Sunshine Coast (Beerwah-Maroochydore) and Brisbane to the Gold Coast (Kuraby-Beenleigh) Faster Rail projects in Queensland
- $2.3b for the North-South Corridor – Darlington to Anzac Highway in South Australia
- $1.0b for the Sydney to Newcastle – Tuggerah to Wyong Faster Rail Upgrade in New South Wales
- $441.2m for the METRONET, including the Thornlie-Cockburn Link, High Capacity Signalling, Morrison Road Level Crossing Removal and the Yanchep Rail Extension in Western Australia
- $392.0m for the Tasmanian Roads Package
- $132.0m for the Central Australian Tourism Roads in the Northern Territory
- $46.7m for the Athllon Drive Duplication in the Australian Capital Territory

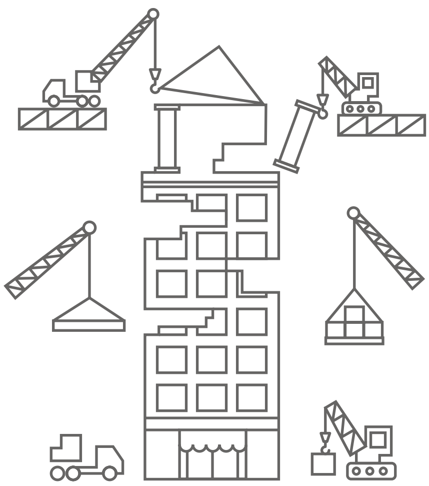
The Government has further proposed to extend the Local Roads and Community Infrastructure Program until 2024-25, providing $501.7m for local councils to maintain and deliver priority local road and community infrastructure projects across Australia.

In addition, the Budget proposes the establishment of a $2.0b Regional Accelerator Program to drive growth and productivity in regional areas, investing in infrastructure, advanced manufacturing, apprenticeships, and higher education.

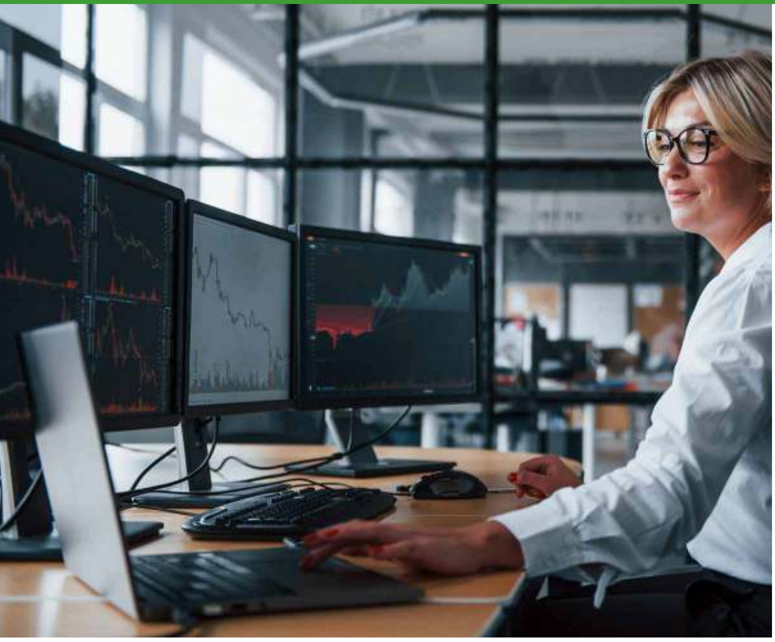
Support for more apprentices

The Government has announced its commitment to building the skilled workforce and industries that Australia needs, including $2.8b for apprentices.

The Government has announced that it will invest a further $2.8b over five years from 2021-22 to upskill apprentices, including by introducing a new streamlined Australian Apprenticeships Incentive System. This investment proposes to establish a pathway that backs and develops apprentices in priority trades and moves away from a complex system with over 30 different payments for employers and apprentices..



INDUSTRY: CYBER



WINNERS

- Companies specialising in providing cyber security and emerging technology solutions to national and regional problems
- Tertiary students and cadets in Artificial Intelligence (AI), cyber and emerging technology sectors
- Professionals such as data analysts, computer programmers and software engineers
- SMEs seeking to adopt cyber security or build digital capabilities
- Education providers and companies delivering projects that improve the quality and quantity of Australian cyber security professionals
- International collaborators in science and technology

Australia's largest ever investment in the country's intelligence and cyber capabilities with the Government to provide $9.9b funding over 10 years, creating 1,900 new jobs over the next decade.

Investment in cyber and intelligence capabilities

In an uncertain world, the Federal Budget deserves a high score for its massive investment in cyber and intelligence capabilities. One of the biggest spends in the Federal Budget, the government has flagged $9.9b for the Australian Signals Directorate (ASD) over the next 10 years. Under this REDSPICE package (which stands for Resilience, Effects, Defence, Space, Intelligence, Cyber and Enablers), this will see an extra 1,900 jobs created at ASD such as data analysts, computer programmers and software engineers.

The Government will also be investing a further $130.1m into the Digital Economy Strategy over 4 years with $30.2m to go towards a Cyber Hubs program. This is to be commended as the Government strives to make Australia a top 10 data and digital economy by 2030.

The 2022-23 Federal Budget has a clear focus on investment from the Government in addressing cyber and terrorist threats, strengthening international partnerships and investing in defensive strategic capabilities. Highlights include:

- **$9.9b invested over 10 years to deliver a Resilience, Effects, Defence, Space, Intelligence, Cyber and Enablers (REDSPICE) package**, to deliver enhancements in offensive and defensive cyber and intelligence capabilities of the Australian Signals Directorate (ASD). This is the largest ever investment in Australia's intelligence and cyber capabilities creating 1,900 new jobs over the next decade.
- **Establishment of the AUKUS trilateral security partnership** with the United Kingdom and the United States of America. This establishment has a clear focus on the critical strategic areas of cyber capabilities, artificial intelligence, quantum technologies, and additional underseas capabilities.
- **Expanding and equipping the Australian Defence Force.** To safeguard Australia's interests, the total Defence workforce will increase by 18,500 personnel by 2040, at a cost of at least $38b in part to support the effective use of cyber capabilities being acquired over the next two decades.
- **$130.1m Digital Economy Strategy investment over four years**, to drive digital transformation with $30.2m provided in this year's Federal Budget for a Cyber Hubs program to support four pilot hubs across the Australian Public Service (APS) in the Department of Defence, Department of Home Affairs, Services Australia, and the ATO.

Comment:

80 points for substantial and long-term commitment to enhancing Australia's Cyber and Intelligence capabilities.

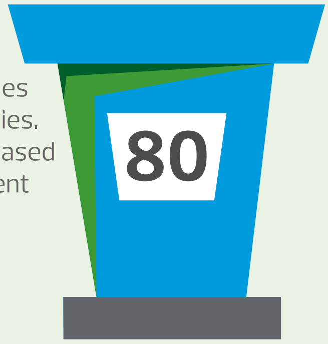
The Government is supporting funding to the Australian Signals Directorate (ASD) to shore up Australia's defences at a national level against cyber attacks and espionage, recognising threats at both a national and critical infrastructure level.

However despite being more than 85% of the economy, this cyber measure offers little for SMEs outside of the Small Business Technology Investment Boost.

INDUSTRY: MANUFACTURING

WINNERS

- Australian manufacturing companies with a focus on key national priorities.
- Companies specialising in space-based research or technology development



LOSERS

- Several Budget measures are targeted toward those companies that fall within the six national priority sectors. Sectors outside of those stated sectors are unlikely to benefit from such measures

- **More than $1b of new investment to support Australian manufacturing capabilities, with significant funding and other initiatives directed at assisting local manufacturers in scaling up their operations, integrating into international markets and creating highly skilled jobs**
- **A Messenger RNA (mRNA) vaccine manufacturing capability to be established, to provide Australia with priority access to mRNA vaccines**
- **$1.3b from 2021–22 (and $38.8m per year ongoing) to grow the Australian space sector**
- **$4.7m to be invested over five years from 2022–23 to encourage women into the manufacturing industry**

In conjunction with existing support and funding measures, the Government's investment in key national priority sectors will promote and improve Australia's advanced manufacturing capabilities across a number of industries. However, the Budget's reliance on competitive grant programs may mean that a number of applicants miss out on funding after experiencing lengthy assessment processes, often spanning many months.

Boosting Modern Manufacturing Strategy and addressing critical supply chain vulnerabilities

On the theme of manufacturing, the 2022–23 Budget delivers a raft of measures designed to drive advanced manufacturing within Australia and builds on the $1.5b Modern Manufacturing Strategy announced in the 2020–21 Budget.

Particularly during a period of heightened global uncertainty, the new manufacturing measures intend to further assist local manufacturers in scaling up their operations and integrating into international markets. The measures typify a distinctive shift of focus to key supply chains, export infrastructure, the critical minerals industry, and advanced modern manufacturing.

Further, the current measures aim to support national manufacturing priorities including resources technology and critical minerals processing, food and beverage, space, clean energy and recycling, medical products, and defence. Key measures include:

- **$250m for the Integration and Translation Streams of the Modern Manufacturing Initiative** to assist manufacturers to translate good ideas into commercial outcomes. Through these programs, the Government will provide support to assist businesses to adapt new technologies and improve their manufacturing processes to boost productivity and competitiveness.
- **$53.9m to fund a third round of the Manufacturing Modernisation Fund** to enable small to medium manufacturers to innovate and adopt new technologies. This will assist in providing co-funded grants to transform manufacturing and to support job growth and a more highly skilled workforce.
- **$500m will support manufacturers in regions through a new Regional Accelerator Stream** of the Modern Manufacturing Initiative. This is part of $2b invested over five years from 2022-23 to drive transformative economic growth and productivity in regional areas. This program will provide funding for regional businesses and communities to access programs targeted to local priorities in infrastructure, manufacturing and industry development, skills and training, research and development, and education.

Other measures to support manufacturing

In addition, a number of additional manufacturing measures have been proposed as part of the 2022–23 Budget to assist in Australia's general manufacturing capabilities, with key measures including:

- **Establishment of an mRNA vaccine manufacturing capability** in combination with Moderna to provide Australia with priority access to mRNA vaccines and support research and development. This includes the development of a facility based in Victoria and will assist in Australia's domestic preparedness for possible future pandemics.
- **$1.3b from 2021–22 (and $38.8m per year ongoing)** to grow the Australian space sector and space manufacturing industry. This includes a number of key initiatives, such as the establishment of a National Space Mission for Earth Observation to secure access to key earth observation data streams, build Australia's sovereign capability and enter agreements with international partners.
- **$4.7m over five years from 2022–23 to encourage women into the manufacturing industry** through networking events in metropolitan and regional areas and a mentorship program for women at all stages of their manufacturing careers.

Progress of previously announced Federal Budget measures (2021)

Measure	Summary	Date of effect	Status
INDIVIDUAL			
Low and middle income tax offset (LMITO) extended	The LMITO will be extended for another year into 2021–22. It was due to be removed on 30 June 2021.	1 July 2021	Enacted
Individual tax residency rules simplified	The individual tax residency rules will be replaced with a primary physical presence test. A person physically present in Australia for 183 days or more in any income year will be an Australian tax resident for tax purposes. Those not meeting the primary test will be subject to secondary tests that consider a combination of physical presence and other measurable, objective criteria.	Following Royal Assent	Not yet actioned
Self-education expenses – $250 exclusion removed	The exclusion of the first $250 of deductions for individuals claiming self-education expenses will be removed.	First quarter following Royal Assent	Second Reading at Senate
Medicare low-income thresholds for 2020–21	The Medicare levy low-income thresholds for singles, families, and seniors and pensioners will be increased for the 2020–21 income year. The threshold for singles will be increased to $23,226 (up from $22,801 in 2019–20). The family threshold will be increased to $39,167 (up from $38,474 in 2019–20). For single seniors and pensioners, the threshold will be increased to $36,705 (up from $36,056 in 2019–20). The family threshold for seniors and pensioners will be increased to $51,094 (up from $50,191 in 2019–20). For each dependent child or student, the family income thresholds increase by a further $3,597 (up from $3,533 in 2019–20).	1 July 2020	Enacted
Exemption for Operation Paladin	A full income tax exemption will apply to pay and allowances of Australian Defence Force (ADF) personnel deployed to Operation Paladin from 1 July 2020.	10 July 2020	Enacted
Medicare levy surcharge and private health insurance rebate thresholds paused	The pause in the indexation of the income thresholds for the Medicare levy surcharge and the private health insurance rebate will continue for a further two years (from 2021–22 to 2022– 23).	1 July 2021	Enacted
COMPANIES AND BUSINESS			
Full expensing of eligible assets extended to 30 June 2023	Temporary full expensing of eligible assets will be extended by 12 months to 30 June 2023.	1 July 2022	Enacted
Temporary loss carry-back for corporate tax entities extended to 30 June 2023	The temporary loss carry back offset will be extended by one year to include 2022–23 income year losses. This is in addition to being able to carry back losses incurred in the 2019–20, 2020–21 or 2021–22 income years. Eligible companies with turnover up to $5b will be able to carry back tax losses incurred in the 2022–23 income year against taxed profits made in or after the 2018– 19 income year.	1 July 2022	Enacted
Digital games tax offset	A digital games tax offset will be introduced to promote the growth of the digital games industry in Australia. This will be a refundable tax offset for a minimum investment of $500,000 from 1 July 2022 in "qualifying Australian games expenditure".	1 July 2022	Not yet actioned
Intangible asset depreciation	Taxpayers may choose to self-assess the effective lives of intangible assets eg patents, registered designs, copyrights or in-house software, for intangible assets acquired after 1 July 2023.	1 July 2023	Second Reading at House of Representatives
Concessional tax rate for income from patents	Companies deriving income from Australian medical and biotechnology patents in income years starting on or after 1 July 2022 will be taxed at a concessional effective tax rate of 17%.	1 July 2022	Second Reading at House of Representatives
JMEI extended	The junior minerals exploration incentive (JMEI) which was due to end in 2020–21 will be extended four more years, from 1 July 2021 to 30 June 2025.	1 July 2022	Enacted
Exemption for disaster grants	Qualifying grants made to primary producers and small businesses affected by the storms and floods in Australia will be non-assessable non-exempt income for 2020–21 and later income years.	1 July 2020	Enacted

Measure	Summary	Date of effect	Status
CCIV regime start date	The corporate collective investment vehicles (CCIV) tax and regulatory framework will be finalised with a revised commencement date of 1 July 2022.	1 July 2022 (Schedule 1,2,3 and 5) Schedule 4 to the Bill commences on 1 July 2022 only if the Corporations Amendment (Meetings and Documents) Act 2021 has commenced prior to that date, otherwise it will not commence.	Enacted
TOFA hedging rules	Technical amendments will be made to the taxation of financial arrangements (TOFA) rules which will include facilitating access to hedging rules on a portfolio hedging basis.	1 July 2022	Not yet actioned
ATO early engagement service for foreign investors	From 1 July 2021, a new early engagement service will be implemented to assist foreign investors and give them confidence to invest in Australian businesses.	1 July 2021	Not yet actioned
Small business tax debt recovery actions	Small businesses (turnover less than $10 million) can apply to the Administrative Appeals Tribunal (AAT) to pause or modify ATO debt recovery actions for debts being disputed in the AAT.	Following Royal Assent	Second Reading at House of Representatives
Superannuation guarantee (SG) threshold removed	The employer exemption from SG payments for individuals earning less than $450 in salary or wages in a calendar month will be removed. The amendment will apply to income years commencing on or after assent. It is expected to apply from 1 July 2022, subject to passage of legislation.	1 July 2022	Enacted
Employee share schemes taxing point changed	The cessation of employment taxing point will be removed for tax-deferred employee share schemes (ESS) that are available for all companies. The change will apply to ESS interests issued from the first income year after assent of the amending legislation.	1 July 2022	Enacted
JobMaker: apprenticeship wage subsidy expanded	The number of eligible places in the subsidy program will no longer be capped (previously capped at 100,000). The duration of the 50% wage subsidy will be increased to 12 months from the date an apprentice or trainee commences with their employer. The subsidy will now be available from 5 October 2020 to 31 March 2022 (previously ended on 30 September 2021). Eligible businesses will be reimbursed up to 50% of an apprentice or trainee's wages of up to $7,000 per quarter for 12 months.	11 May 2021	Announced
Fuel tax credits	The heavy vehicle road user charge (which reduces the fuel tax credit rate) will be increased from 25.8 cents per litre to 26.4 cents per litre from 1 July 2021.	1 July 2021	Enacted
NOT-FOR-PROFITS			
Reporting requirements for noncharitable NFPs	From 1 July 2023 non-charitable NFPs with active ABNs will be required to submit annual information used to self-assess eligibility for income tax exemptions in an online self-review form.	1 July 2023	Not yet actioned
Deductible gift recipients list updated	The following organisations will be approved as specifically-listed deductible gift recipients (DGRs): ▪ Australian Associated Press Ltd from 1 July 2021 to 30 June 2026 ▪ Virtual War Memorial Limited from 1 July 2021 to 30 June 2026 ▪ SU Australia Ministries Ltd (Scripture Union Queensland) from 1 July 2021 to 30 June 2023 Extensions of DGR status for: ▪ Cambridge Australia Scholarships Limited from 1 July 2021 to 30 June 2026 ▪ Foundation 1901 Limited from 1 September 2021 to 31 August 2026	Various	Enacted

Measure	Summary	Date of effect	Status
INTERNATIONAL TAX			
List of exchange of information jurisdictions to be updated	From 1 January 2022, Armenia, Cabo Verde, Kenya, Mongolia, Montenegro and Oman added to list. Residents of these jurisdictions will be eligible to access the reduced MIT withholding rate of 15% on certain distributions, instead of the default rate of 30%	1 October 2021	Enacted
Offshore banking unit (OBU) regime removed	The concessional 10% effective tax rate applying to income derived from eligible offshore banking activities will be removed. Existing OBUs will have access to the concessional tax rate until the end of the 2022–23 income year. The withholding tax exemption for interest and gold fees paid by OBUs on certain offshore borrowings will be removed from 1 January 2024. The OBU regime will also be closed to new entrants from 26 October 2018.	Various	Enacted
NZ sporting teams and support staff in Australia	New Zealand will maintain its primary taxing right over members of its sporting teams and support staff in respect of Australian income tax and fringe benefits tax liabilities that arise from exceeding the 183-day test in the Australia–New Zealand double tax agreement as a result of being located in Australia for league competitions due to COVID-19 for the 2020–21 and 2021–22 income years.	1 July 2020	Enacted
SUPERANNUATION			
Work test abolished	Individuals aged 67 to 74 no longer required to meet the work test when making or receiving non-concessional superannuation contributions or salary sacrificed contributions, from 1 July 2022. The cut-off age for accessing the bring-forward arrangement for non concessional contributions will also be increased from 67 to 75.	1 July 2022	Enacted
Downsizer contribution eligible age lowered	Eligibility age to make downsizer contributions into superannuation reduced from 65 to 60 years of age, from 1 July 2022.	1 July 2022	Enacted
First Home Super Saver (FHSS) scheme expanded	From 1 July 2022, the maximum amount of contributions that can be released from superannuation under the first home super saver scheme increased from $30,000 to $50,000. **Technical changes to improve operation of scheme:** ▪ Increase discretion of the Commissioner to amend and revoke applications ▪ Allow individuals to withdraw, amend or resubmit applications before receiving FHSS amounts ▪ Allow the Commissioner to return any released FHSS amounts to superannuation funds, provided money is yet to be released to the individual ▪ Clarify that money returned by the Commissioner to superannuation funds is treated as funds' non-assessable non-exempt income and does not count towards the individual's contribution caps.	1 July 2022	Enacted
SMSF residency requirement changes	An SMSF or small APRA-regulated fund will remain an Australian superannuation fund where the members/trustees of the fund are overseas temporarily for a period not exceeding five years (extension of current two-year central management and control safe harbour test). The active member test (50% of total market value of such funds required to be held on behalf of resident active members) will also be removed. The amendments are expected to apply from 1 July 2022, subject to passage of legislation.	Start of the first financial year following the Royal Assent	Not yet actioned
SMSF legacy pensions conversion	A two-year window will be created in which a member of an SMSF with a market-linked, life expectancy or lifetime pension can convert their pension into an account-based pension. It will commence from the first financial year after assent of amending legislation.	Start of the first financial year following the Royal Assent	Not yet actioned

Measure	Summary	Date of effect	Status
EXCISE AND IMPORT DUTIES			
Excise — alcohol excise refund scheme	From 1 July 2021, eligible brewers and distillers will be able to receive a full remission of any excise they pay, up to an annual cap of $350,000. Currently, eligible brewers and distillers are entitled to a refund of 60% of the excise they pay, up to an annual cap of $100,000.	1 July 2021	Enacted
Automotive R&D tariff concession extended	The automotive research and development tariff concession of up to 5% of import value will be extended for a further four years until 30 June 2025, effective from 1 April 2021.	1 April 2021	Enacted
Anti-dumping reforms	Australia's anti-dumping regime will be reformed to make the system easier for businesses to navigate. Eligible importers will also be allowed to claim a tariff concession order based exemption from anti-dumping duties at the time they make their import declaration.	1 July 2021	Not yet actioned
OTHER MEASURES			
Offshore petroleum production temporary levy to recover costs of decommissioning Laminaria and Corallina oil fields	Temporary levy on offshore petroleum production to recover the Commonwealth's costs of decommissioning the Laminaria and Corallina oil fields and associated infrastructure. Administrative features relating to the Laminaria-Corallina cost recovery levy, including the requirement that the levy is payable to the Commissioner annually.	Following Royal Assent	Second Reading at House of Representatives

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