2020 FEDERAL BUDGET REPORT

CONTENTS

INTRODUCTION

"*THE ROAD TO RECOVERY WILL BE HARD BUT THERE IS HOPE*" – JOSH FRYDENBERG.

Touted as the most significant Federal Budget in decades, the Government's 2020 delivery sets the scene for a slow climb back to surplus and out of the first recession in almost 30 years. This will be no soft-pedal event, but a back-to-basics focus on boosting the economy. It's definitely time to 'get back on the bike' and start the journey towards recovery.

In a budget that is encouraging spending on many levels, there are loads of tax related measures for business, as well as a number of positives for individuals. Industry hasn't been forgotten either with a number of supporting measures for Agriculture, Real Estate, Education, Infrastructure, Aged care and Child care.

Amongst the measures for business, the Treasurer has delivered a budget with a focus on the ABC's:

- A is for Asset Write-offs – enabling businesses to deduct the full cost of new capital assets and for small and medium sized businesses, second –hand assets will also be covered.
- B is for Business Concessions – loss carry back provisions for businesses will be provided to offset current losses on to previous tax paid.
- C is for Cuts to personal tax rates – and also for Cash Handouts to pensioners and some other welfare recipients to stimulate the economy.

Finally, it's worth highlighting the changing gears for business innovation with the paring back of the changes to Research and Development incentives.

With the rough and rugged trail carved out by the ravages of the pandemic, it will be an endurance ride for Australian businesses and the economy with the emphasis on getting the nation spending to smooth out the ride ahead.

MAIN MEASURES

TEMPORARY FULL EXPENSING OF CAPITAL ASSETS

The Government has announced a temporary measure to allow businesses to claim an immediate deduction for the full cost of eligible capital assets.

Under the current law, businesses with annual aggregated turnover of less than $500 million are entitled to an immediate tax deduction for the cost of a depreciating asset, whether new or second hand, with a cost of less than $150,000 which is first used or installed ready for use between 12 March 2020 and 31 December 2020.

Under the new measure, businesses with aggregated annual turnover of less than $5 billion will be able to deduct the full cost of eligible capital assets acquired from 7:30pm AEDT on 6 October 2020 and first used or installed by 30 June 2022.

The announcement also extends the current instant asset write-off by giving businesses an extra six months, until 30 June 2021, to first use and install those assets.

The announcement also factors in small businesses using the simplified depreciation pool.

The implications of the new measure and the existing instant asset write-off measure are as follows:

- Businesses with annual aggregated turnover of less than $5 billion will be entitled to an immediate tax deduction for the full cost of new eligible capital assets and improvements to existing eligible assets acquired from 7:30pm AEDT on 6 October 2020 and first used or installed by 30 June 2022
- Businesses with aggregated turnover of less than $50 million will also be entitled to an immediate tax deduction for the full cost of second-hand assets acquired from 7:30pm AEDT on 6 October 2020 and first used or installed by 30 June 2022
- Businesses with aggregated annual turnover between $50 million and $500 million can claim an immediate deduction for the full cost of eligible second-hand assets costing less than $150,000 if they are purchased by 31 December 2020 and installed ready for use by 30 June 2021
- Small businesses with aggregated turnover of less than $10 million can deduct the balance of their simplified depreciation pool at the end of the income year under the new measure.

Broadly, the annual aggregated turnover of an entity includes the income earned in carrying on that entity's business plus the annual turnover of entities connected or affiliated with that entity which may be based in Australia or overseas.

BDO COMMENT

This measure generously extends the current instant asset write-off concessions which was introduced as part of the Government's measures to support businesses to withstand and recover from the economic impacts of COVID-19. However, the measure also introduces added complexities because of the annual aggregated turnover definition. This is particularly the case for Australian large businesses that are foreign owned or do not have visibility on the turnover of their significant owners in order to assess eligibility for the write-off. Accordingly, it is critical that businesses identify any other entities that they are connected with or affiliated with.

LOSS CARRY-BACK FOR COMPANIES

The Federal Government has announced a temporary tax relief by allowing eligible companies to carry-back tax losses made in the 2020 to 2022 income years to offset tax paid on profits from the 2019 income year onwards. This refunding of tax previously paid to the ATO when a loss is subsequently incurred is described as a 'loss carry-back'.

Currently, if a company makes losses in an income year, it has to wait until it returns to profitability before it can utilise these losses to reduce its taxable income and ultimately, the amount of tax it pays. Companies are able to carry forward tax losses indefinitely and deduct these from their taxable income in future income years, provided they satisfy certain integrity rules. The existing rules do not allow companies to utilise losses to recoup tax previously paid on profits.

We note that the following limitations apply with respect to this measure:

- Losses carried back cannot exceed earlier taxed profits
- The carry-back amount must not generate a franking account deficit.

For companies that elect to apply this measure, they will receive a tax refund in the loss making year equal to the tax which has been offset by the losses carried back.

BDO COMMENT

Readers may recall that provisions for loss carry-back were legislated in the 2012/2013 income year. However, these rules were subsequently repealed for the 2014 income year onwards.

BDO is pleased that the Federal Government has resurrected this measure, which not only provides tax relief to companies, but corrects the existing asymmetries (albeit temporary) in the tax utilisation provisions where only prior year losses are allowed to reduce future tax profits.

JOBMAKER HIRING CREDIT

In an effort to promote employment growth, the Government has committed $4 billion over the next three years in the form of JobMaker Hiring Credits to eligible employees aged 16-35 years. The program is designed to encourage employers to hire young workers and move people from JobSeeker, Youth Allowance or Parenting Payment programs into stable employment.

UP TO $200 PER WEEK CREDIT FOR YOUNG AUSTRALIANS

The subsidy will be split into two, age-based tiers and will be available to employers excluding the major banks and those businesses that are currently claiming JobKeeper. Eligible employers will receive a credit of $200 for certain employees aged 16-29 that increase the total headcount and payroll of the business and $100 for those aged 30-35.

The payments will be available for the first 12 months of a worker's employment and will be capped at $10,400 for each additional position created. Whilst new jobs created from 7 October 2020 will be eligible for the program, employers will be required to make claims in arrears beginning 1 February 2021.

In order for an employee to be eligible for either of the tiers of payment, they will be required to have worked, on average, at least 20 hours per week each quarter. Further to this, they must also have received the JobSeeker Payment, Youth Allowance or Parenting Payment in at least one of the three months prior to their new employment.

The plan is expected to cost $850 million in the 2020-21 period and totalling $4 billion over the next three financial years. Over its life, the JobMaker credits are expected to support up to 450,000 jobs for young Australians nationwide.

BDO COMMENT

BDO supports this Government initiative in promoting job opportunities for young Australians. Young people are one of the most at risk demographics in times of economic downturn with almost 700,000 young people on either the JobSeeker or Youth Allowance programs as of August. Both the economic and social benefits of this program in parallel with other initiatives announced, present much needed support and hope for some of those worst affected by the recession.

APPRENTICESHIP WAGE SUBSIDY

As a part of the 'job-centric' 2020 Budget, the Government will provide $1.2 billion from 2020-2021 to increase the number of apprentices and trainees employed. This investment will be made over four years and is accessible to businesses of any size.

In July 2020, the Government released the Economic and Fiscal Update which detailed COVID-19 response packages aimed at upskilling workers and fostering apprenticeships. This update introduced the Supporting Apprentices and Trainees (SAT) wage subsidy. Eligible businesses were to be reimbursed with up to 50% of an apprentice's or trainee's wage. These subsidies were capped at $7,000 per quarter, per eligible apprentice or trainee. Notably, only small and medium sized businesses had access to this subsidy.

The 2020 Budget has introduced the JobMaker Plan. Within it, the Boosting Apprentices Wage Subsidy has been introduced to replace the SAT subsidy. This new subsidy is accessible by businesses of all sizes and will be available from 5 October 2020 to 30 September 2021 for those apprentices and trainees commencing employment during this period. Eligible businesses will be reimbursed with up to 50% of the apprentice or trainee's wages worth up to $7,000 per quarter. This subsidy is capped at 100,000 places.

In order to minimise disruptions to these new apprentice arrangements, the commencement of the *Incentives for Australian Apprenticeships Program* will be delayed until 1 July 2021.

BDO COMMENT

The introduction of the rebranded SAT subsidy is a great incentive for businesses to harness the human capital of young Australians. However, without an increase in the spending appetite of Australian businesses and individuals, there may be a lot of apprentices with very little work to do. It is also unclear how this wage subsidy will interact with other facets of the JobMaker Plan – it is not clear whether employers will be free to double dip with hiring incentives and the continuing wage subsidy. Clarity on this point, and how the 100,000 place cap will be administered, is vital.

RESEARCH AND DEVELOPMENT TAX INCENTIVE

The Government has announced an about-face to Treasury Laws Amendment (Research and Development Tax Incentive) Bill 2019, which was due to apply in its current form, retrospectively for income years commencing on or after 1 July 2019. This bill was set to introduce a range of questionable measures designed principally to reduce the cost of the incentive by $1.8bn, over four years.

Instead, the Government will retain much of the structural changes embodied in the previous bill, and proposes to increase R&D funding through a range of amendments to thresholds and rates of assistance that will encourage both large and small companies to invest in conducting R&D activity.

The changes to the bill, to take effect from 1 July 2021, will:

- Retain the much maligned intensity measure as a means of providing variable rates of assistance to large companies, depending on the level of R&D expenditure as a proportion of total expenditure. However, the tiers have been made more attractive for large companies through a significantly simplified 2 tiered structure with a single realistic proposed intensity threshold of 2% of total expenditure above which a premium rate (16.5%) of R&D assistance is applied
- Return the refundable offset rate to 43.5% by increasing the incentive component to align with the reduction in the corporate tax rate
- Remove the proposed $4 million cap on the refundable offset.

In what will be a relief for many R&D Tax Incentive claimants, the tax incentive will remain unchanged for the 2019 and 2020 financial years.

All other measures in the bill are retained including increasing the expenditure cap to $150 million.

RATES OF BENEFIT

- From 1 July 2021, companies with a turnover of less than $20 million will attract a tax incentive of 18.5% above the prevailing company tax rate. With a 25% company tax rate proposed for the 2022 financial year, companies with sufficient losses will retain the ability to receive 43.5 cents for every dollar spent on R&D
- Companies with an annual aggregated turnover of $20 million or greater will continue to be entitled to the non-refundable offset of 8.5% above the company tax rate. However, those which spend more than 2% of total expenses will be entitled to an additional 8% intensity premium, resulting in a potential incentive of 16.5%.

Income years commencing on or after 1 July 2019

Aggregated Turnover <$20 million (Refundable Tax Offset)

	AGGREGATED T/O <$20M
Offset Rate	43.5%
Company Tax Rate	27.5%
Net Benefit	16%

Aggregated Turnover >$20 million (Non-Refundable Tax Offset)

	AGGREGATED T/O >$20M <$50M	AGGREGATED T/O >$50M
Offset Rate	38.5%	38.5%
Company Tax Rate	27.5%	30%
Net Benefit	11%	8.5%

Income years commencing on or after 1 July 2020

Aggregated Turnover <$20 million (Refundable Tax Offset)

	AGGREGATED T/O <$20M
Offset Rate	43.5%
Company Tax Rate	26%
Net Benefit	17.5%

Aggregated Turnover >$20 million (Non-Refundable Tax Offset)

	AGGREGATED T/O >$20M <$50M	AGGREGATED T/O >$50M
Offset Rate	38.5%	38.5%
Company Tax Rate	26%	30%
Net Benefit	12.5%	8.5%

RESEARCH AND DEVELOPMENT TAX INCENTIVE
CONTINUED

Income years commencing on or after 1 July 2021

Aggregated Turnover <$20 million (Refundable Tax Offset)

	AGGREGATED T/O <$20M
Offset Rate	43.5%
Company Tax Rate	25%
Net Benefit	18.5%

Aggregated Turnover >$20 million (Non-Refundable Tax Offset)

	TOTAL EXPENSES	R&D OFFSET RATE
Tier 1	Notional deductions representing up to and including 2 per cent of total expenses	8.5% above the company tax rate
Tier 2	Notional deductions representing above 2 per cent of total expenses	16.5% above the company tax rate

BDO COMMENT

The retention of the intensity measure for large business, not only adds complexity but discriminates against certain industries such as manufacturing and agriculture sectors in particular. The beauty of the R&D tax incentive as originally designed is that it is industry agnostic.

That said, BDO welcomes the proposed changes to the Government's controversial bill. However, it is a pity that it has taken a global pandemic and recession for the Government to realise the economic benefits of encouraging investment in research and development. It is in adversity that successful businesses will invest and adapt. In fact, it is in the absence of that adversity where the Government needs to provide support to encourage investment in higher risk/reward ventures. Accordingly, as the country continues to deal with the economic and health issues arising due to COVID, we would encourage the Government to continue to maintain, or increase, its support for this important incentive for the longer term.

BDO would also encourage the Government to look to the taxation system to encourage commercialisation of technology arising from the R&D Tax Incentive through a tax regime similar to the 'Patent Box' regime in the UK that would provide an effective incentive for companies to not only develop technology but to retain its' ownership and commercialisation in Australia.

EXPORT MEASURES

The Government has flagged forthcoming changes to support exporters and export-ready businesses. This includes changes to the Export Market Development Grants Scheme (EMDG), as well as additional funding under the JobMaker plan to increase the share of two-way trade covered by free trade agreements.

EXPORT MARKET DEVELOPMENT GRANTS

The EMDG Scheme is Australia's flagship export support program, offering export-ready businesses a reimbursement of up to 50% of their eligible overseas promotion expenses up to a maximum grant of $150,000 per year over eight Applications. In 2019, over 4,000 businesses employing almost 69,000 Australians accessed the scheme, collectively generating exports worth $3.7 billion.

In October 2019, the Government commissioned an independent review into the performance of the scheme led by Ms Anna Fisher. The review led to ten recommendations related to increasing certainty of funding for exporters, better targeting the scheme and reducing administrative complexity. All recommendations have been accepted in principle, with a reformed scheme, retaining an entitlement program, to be legislated for the 2021-22 financial year.

Whilst detailed guidelines and budgets are yet to be drafted, key changes to be implemented under the reformed scheme include:

- Applying for funding prospectively instead of retrospectively
- Implementation of a three-tiered system to align with the stages of an exporter's journey:
  - SMEs who are new to export will be able to access grants totalling up to $80,000 over two years ($40,000 per year)
  - Eligible exporters who plan to expand their presence in current markets or enter new markets will be able to access grants totalling up to $240,000 over three years ($80,000 per year)
  - Eligible exporters who continue to expand into new markets will be able to access grants totalling up to $450,000 over three years ($150,000 per year).

Notably, under the new scheme, the eligibility threshold will be reduced from $50 million to $20 million, excluding a large number of previously eligible entities from accessing the scheme.

JOBMAKER PLAN

The Government has committed an additional $6.6 million over four years (commencing this financial year) to increase the share of two-way trade covered by free trade agreements and to expand regional digital trade. The cost of this measure will be met through the existing resources of the Department of Foreign Affairs and Trade.

BDO COMMENT

BDO would have preferred to have seen certainty restored to exporters through additional funds being made available to the existing EMDG scheme.

Whilst prospective funding under the EMDG Scheme may appeal to some, BDO is concerned about the compliance and administrative burden which will accompany such a change. One change we strongly condemn is the reduction in available funding for exporters. SMEs who are new to export will have their maximum yearly grant entitlement reduced by almost 75%, while those in their subsequent three Applications will see their maximum entitlement reduced by almost 50%. No Applicants will be better off under the new scheme, which significantly reduces the attractiveness of the program and discourages SMEs from beginning their export journey at a time when global markets are more uncertain than ever. In addition, we are deeply disappointed with the reduction in the turnover threshold. This reduction will see many exporters lose this crucial avenue of support whilst recovering from the COVID-19 pandemic.

JOBMAKER PLAN - GLOBAL BUSINESS AND TRADE

The Government has announced measures under the JobMaker plan to improve inbound business and talent migration to Australia, as well as to modernise Australia's trade system and reduce the complexity of border services. These welcome changes will facilitate increased international connectivity and provide Australian businesses with greater access to the world's most eminent talent.

GLOBAL BUSINESS AND TALENT ATTRACTION TASKFORCE

The Government will provide $29.8 million over two years to establish a whole-of-government Global Business and Talent Attraction Taskforce. Funding will be distributed accordingly:

- $13.5 million in 2020-21
- $16.3 million in 2021-22.

The taskforce will coordinate between all levels of Government as well as leveraging private industry expertise, as well as public service assistance from:

- The Department of Home Affairs
- Austrade
- The Department of Foreign Affairs and Trade
- Industry, Science, Energy and Resources
- Defence
- The Department of Education, Skills and Employment.

The initial focus of the taskforce will be on advanced manufacturing, financial services (including FinTech) and health. This is in addition to the Prime Minister's announcement on 9 July that Australia would develop incentives to attract export-oriented Hong Kong businesses to Australia.

SIMPLIFIED TRADE SYSTEM

The Government has indicated it will provide $28.6 million over two years from 2020-21 to support initiatives to modernise Australia's trade system through the JobMaker Plan. These additional funds are intended to streamline border services to reduce administrative complexity and improve the efficiency of international trade.

The new measure includes:

- $7.8 million in 2020-21 to reduce compliance complexity for Australian businesses
- $8 million over two years from 2020-21 to reform and strengthen arrangements for aviation and maritime identification card schemes
- $12.8 million over two years from 2020-21 to develop a new border intervention model for sea and air cargo
- An extension of the Australian Trusted Traders program to enable accredited trusted traders to pay customs and anti-dumping duty on a deferred basis from 1 July 2021, resulting in reduced revenue of $7.5 million over three years from 2021-22.

BDO COMMENT

BDO welcomes the creation and funding of the Global Business and Talent Attraction Taskforce. Attracting global business and talent to Australia will assist in boosting Australia's productivity and economic complexity. We implore the Government to continue funding such a body beyond the economic recovery from COVID-19. We also commend the Government's announcement in relation to simplifying the trade system, and hope Australian businesses promptly utilise the anticipated streamlined opportunities and reduced administrative complexities. Businesses will be able to take advantage of significant time and cost savings, and redirect time and resources to strengthen existing trade agreements and/or targeting new market opportunities.

EXPANDING ACCESS TO THE SMALL BUSINESS TAX CONCESSIONS

The Government has announced plans to increase the turnover threshold for Small Business Entities (SBEs). Eligibility for the concessions has been increased to medium-sized entity tax payers with an aggregated annual turnover of greater than $10 million but less than $50 million. While this is great news, taxpayers will have to wait until the next financial year to reap the benefits.

THREE STEP PLAN – CHANGES FOR THE 2021 AND 2022 INCOME YEARS

The intended changes will be applied in three phases, with the majority of concessions becoming available after 1 July 2021. These concessions have previously only been available to taxpayers with aggregated turnover of less than $10 million. The change is expected to provide access to these concessions to an additional 20,000 businesses.

The first phase will allow SBEs to gain access to the following concessions from 1 July 2020:

- The ability to immediately deduct certain start-up expenses which are ordinarily considered capital in nature
- The ability to deduct certain prepaid expenses.

These concessions have traditionally been accessed by start-up entities and should assist new businesses with the difficult first few years. Regardless, taxpayers should ensure they meet the other conditions of these concessions.

Additional relief will also be available to SBEs for the 2022 Fringe Benefits Tax year, as more employers will gain access to significant concessions.

The greatest relief will be available to those businesses that survive until the 2022 income year, with the majority of concessions becoming available from 1 July 2021, including access to the:

- Simplified trading stock rules
- Pay-As-You-Go Instalment administrative concession
- Excise concessions
- Two-year amendment concession
- Simplified accounting method for GST purposes.

These concessions are largely administrative and may not provide the cash-flow relief that many businesses expect.

BDO COMMENT

The reduction in the SBE turnover threshold may appear to be a massive boost to thousands of taxpayers, however, there is a risk that the relief will come too late. As Australia's economic crisis deepens, the next seven months will be critical for many SBEs. While many of these concessions may provide administrative relief for taxpayers, taxpayers should be cautious as these concessions can be a double-edged sword. Moreover, the Government has again failed to improve access to the Capital Gains Tax Small Business Entity tax concessions, with the turnover threshold remaining at $2 million.

FRINGE BENEFITS TAX AMENDMENTS

The Federal Budget includes a number of Fringe Benefits Tax (FBT) amendments, as outlined below.

NO MORE CAR PARKING FRINGE BENEFITS FOR SMES

This proposed measure will expand the current FBT exemption for small business car parking fringe benefits to include businesses with an aggregated annual turnover between $10 million and $50 million.

The Fringe Benefits Tax law currently includes an exemption for car parking fringe benefits for small business entities, which in this context applies generally to those employers with annual turnover less than $10 million. This means that medium employer businesses, often referred to as having turnover between $10 million and $50 million, are currently ineligible for the car parking fringe benefit exemption.

This measure proposes from 1 April 2021, that eligible businesses will be exempt from FBT on car parking if the car parking is not provided in a commercial car park, where aggregated turnover is less than $50 million.

Businesses that are not eligible under the current FBT exemption, which presumably will also be ineligible under the proposed changes to the exemption, include the following entities:

- Public companies, or subsidiaries of public companies;
- Government bodies.

BDO COMMENT

In a surprise move, the government has proposed to extensively eliminate fringe benefits tax on car parking fringe benefits. We join in the chorus of cheers around the nation as medium sized employers learn of this proposed development.

Interestingly, the announcement refers to aggregated annual turnover, when stating the turnover thresholds of between $10 million and $50 million. However, the current FBT exemption in Section 58GA of the FBT legislation does not refer to aggregated turnover, but instead refers generally to turnover only. Therefore under the current FBT exemption, where a group of entities has aggregated turnover of greater than $10 million, but the employer entity in the group has less than $10 million in turnover, then the current FBT exemption can still apply to that employer entity to exempt car parking fringe benefits.

This is also an interesting development, considering the release in November 2019 of the updated draft tax ruling on car parking fringe benefits and the FBT Employer Guide Chapter 16 re-write by the Australian Taxation Office, which potentially expands the meaning of commercial parking stations to include commercial shopping centre paid car parking facilities. These changes were viewed as having the potential to significantly increase employers' FBT liabilities and compliance costs. Perhaps the government has realised that employers will not have an appetite for these changes from the draft tax ruling in the current economic COVID-19 environment.

BDO welcomes these Federal Budget measures to expand the exemption for car parking fringe benefits, thereby reducing employers' FBT liabilities and compliance costs.

FRINGE BENEFITS TAX EXEMPTION – EMPLOYER-PROVIDED RETRAINING

The Government announced that certain employer-provided retraining and reskilling will be exempt from Fringe Benefits Tax ('FBT').

FBT applies where an employer provides training to its employees that is not sufficiently connected to the employee's current employment. For example, a business that retrains their sales assistant in web design, to redeploy them to an online marketing role in the business, can be subject to FBT on the retraining costs.

The Government clearly wishes to encourage employers to help workers transition to new employment opportunities within or outside their business. Therefore, this proposed measure will treat retraining and reskilling costs incurred by employers and provided to redundant or soon to be redundant employees, as exempt from FBT from 2 October 2020.

However, the exemption will not extend to:

- Retraining acquired by way of a salary packaging arrangement; or
- Training provided through Commonwealth supported places at universities (ie generally undergraduate degrees).

In addition, the Government will consult on potential changes to the current arrangements for workers that undertake training at their own expense. The current rules, which limit deductions to training related to current employment, may act as a disincentive for Australians to retrain and reskill to support their future employment needs.

BDO COMMENT

Any FBT exemption is welcomed as it will reduce costs and compliance burdens for employers. However, one would think that where the employee was moved into the new position first and then retrained, the employer would not need to rely on this proposed FBT exemption, and therefore it may not be as relevant in practice.

It is important to note that this proposed measure will not provide an exemption for FBT on expenditure on undergraduate degrees, as this is specifically excluded from the measure. Also it only provides tax relief for employers. Where the employee incurs such expenses themselves without reimbursement from their employer, there is no tax relief as such expenditure remains non-deductible.

MULTIPLE WORK-RELATED ELECTRONIC DEVICES TO BE FBT EXEMPT FOR SMES

Small and medium sized employers will be able to provide multiple work-related portable electronic devices without incurring FBT liabilities under this proposed measure.

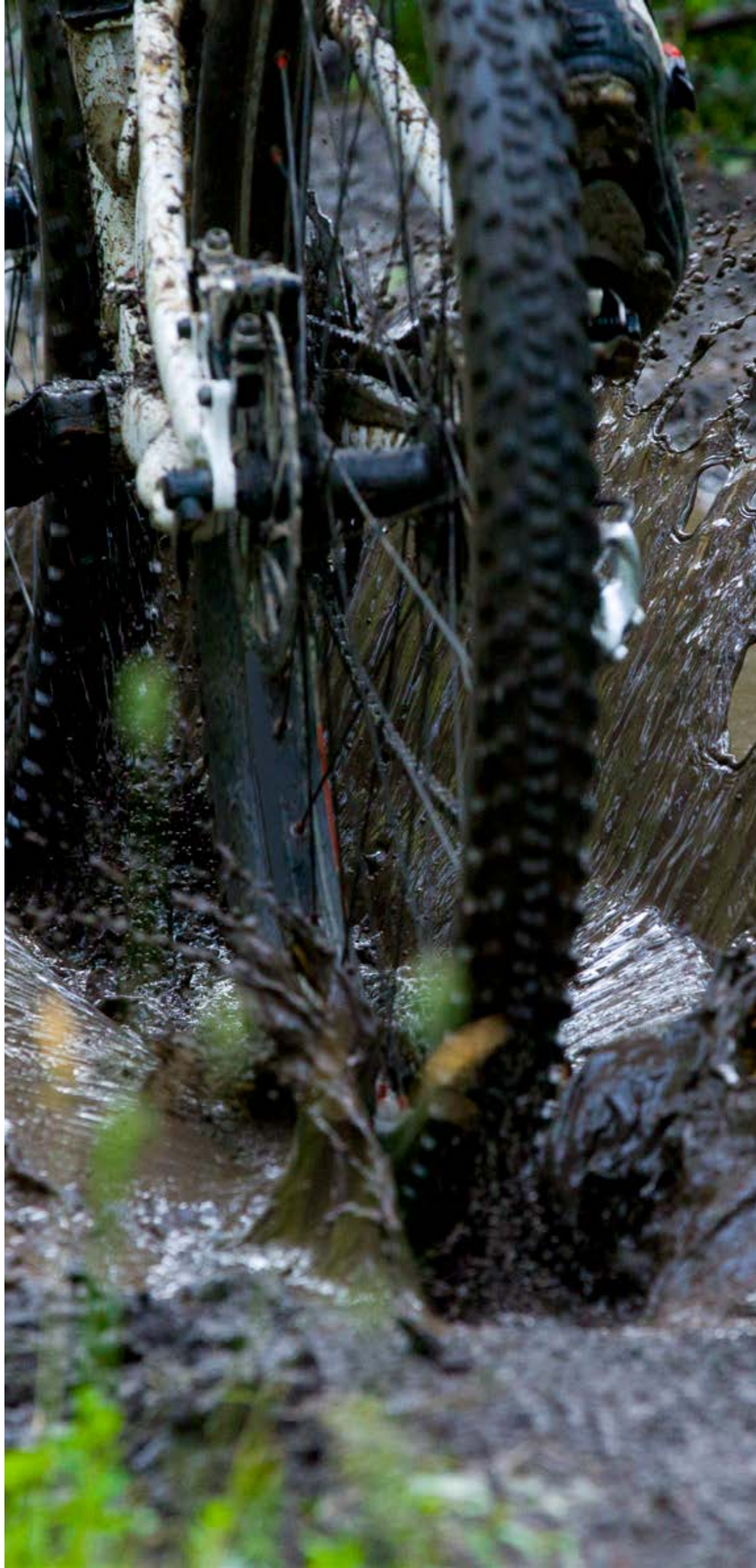
Under the current FBT law, eligible work related items such as phones, tablets and laptops provided primarily for use in the employee's employment are treated as exempt from FBT. However, additional items acquired in the same FBT year for that employee, would not be exempt, where there are substantially identical functions to an earlier item acquired (unless it was a replacement item e.g. where the item was lost or destroyed).

The law was changed for the 2016/17 FBT year and later years to remove this requirement that the items have substantially identical functions, for small business entities (generally entities with aggregated annual turnover of less than $10 million).

The proposed Federal Budget measure will also remove this requirement for entities commonly referred to as medium sized entities, being those entities with aggregated annual turnover of between $10 million and $50 million. It is proposed that this measure commence from 1 April 2021.

BDO COMMENT

This exemption helps reduce uncertainty in the application of the FBT law, and prevents eligible employers from having to track previously provided equipment and determine whether those portable electronic devices have substantially identical functions. BDO supports this measure as it allows eligible employers to provide employees with the equipment they need to carry out their work duties without the risk of incurring FBT liabilities.



FRINGE BENEFITS TAX – REDUCED COMPLIANCE BURDEN ON EMPLOYERS

The Government is proposing to reduce the current fringe benefits tax (FBT) return record-keeping obligations by allowing employers to use existing corporate records.

Currently, employers have an obligation to keep records for up to five years that are adequate to enable their FBT liability to be assessed. These records need to validate the taxable value of the fringe benefits provided and the method of allocation to employees where relevant. Although there are some standard records that need to be kept, such as invoices and receipts, there are additional records that employers need to create such as employee declarations.

This can be quite burdensome for employers. For example, there are currently 20 different forms available on the ATO website, providing different declarations for employers to use for their record keeping. It can be quite time consuming in practice to prepare and obtain all the relevant signed declarations from employees in time for lodgement of the FBT return.

This proposed measure will reduce the record-keeping obligations by allowing employers to rely on existing corporate records that are determined by the Commissioner to be adequate alternative records. This reduces compliance costs and removes the need for employers to create additional records. This measure is proposed to begin on 1 April from the start of the first FBT year following the Royal Assent of the relevant legislation.

BDO COMMENT

Whilst the Government aims to reduce the burden of record-keeping for employers, there is ambiguity in the proposed measure that leaves the employer in the position of a rider without a designated track. Until further clarification from the Commissioner is provided to determine which corporate records will be considered 'adequate' as alternatives, employers will be navigating their way through rough and dangerous terrain. Will employers really be willing to risk non-compliance by leaving these 'additional records' uncompleted? What type of records will be considered adequate alternatives in the place of an employee declaration for the private use of a fringe benefit?

When focussing on the impact of this budgetary measure on employee declarations, there are some potentially positive impacts for the employer. Employee declarations require signatures and there are often difficulties in obtaining them in time for lodgement of the FBT return. Where employees have left during the year or no signature is obtained, employers are often left in the position of paying more FBT than they should. This measure will have the potential flow-on impact of reducing the overall FBT paid by an employer.

PERSONAL INCOME TAX CUTS

The Government will bring forward the second stage of its Personal Income Tax Plan by two years to 1 July 2020 while retaining the low and middle income tax offset (LMITO) for 2020-21. The Morrison Government's approach aims to provide immediate relief to individuals and support economic recovery and jobs by boosting consumer spending.

TAX BRACKET CUTS BROUGHT FORWARD

The 2019-20 budget saw the Coalition build further on their Personal Income Tax Plan with the announcement of further tax bracket cuts. The measures aim to reduce the 32.5% marginal tax rate to 30% from 1 July 2024 to align the middle income tax bracket for individuals with corporate income tax rates.

Stage two of the Plan, originally proposed to take effect from 1 July 2022, will now apply from 1 July 2020. This stage will see the increase of the top thresholds of both the 19% and 32.5% personal income tax brackets.

The impact of the tax bracket cuts is listed below:

2020-21 ONWARDS	2020-21 ONWARDS
Nil - $18,200	0%
$18,201 - $45,000	19%
$45,001 - $120,000	32.5%
$120,001 - $180,000	37%
$180,001 plus	45%

Low Income Tax Offset (LITO)

In addition, the Government will bring forward the proposed increase to the LITO from $445 to $700. The LITO will be recovered at a rate of 5 cents per dollar between taxable incomes of $37,500 and $45,000 and an additional 1.5 cents per dollar from taxable incomes between $45,001 and $66,667.

Retaining the LMITO for the 2020-21 income year

The previously announced removal of LMITO, when stage two of the plan is implemented, has now been removed. As a one-off benefit in the 2021 year you will receive the LMITO as well as the stage two tax cuts.

Private health cover

Under the Government's proposed changes to Private Health cover, the maximum age of dependants allowed under Private Health insurance policies will increase from 24 years to 31 years, and will remove the age limit of dependants with disabilities.

BDO COMMENT

BDO welcomes the personal tax cuts which will put additional money into the hands of those who are more likely to spend it. Not bringing forward the substantial tax cuts for higher income earners (who would have a greater propensity to save the cuts) was a sensible move in the economic circumstances.

STIMULUS PAYMENTS FOR SOCIAL SECURITY RECIPIENTS

Some of Australia's most vulnerable individuals can expect to receive stimulus payments as part of a three year $2.6 billion social security relief package in the Government's 2020/2021 Budget. In a departure from the Budget's job-creation focus, payments were announced aimed at pensioners, carers, and disability card holders. These are expected to provide much-needed economic relief to over 5.1 million recipients.

THE STRUCTURE

Two $250 payments for each eligible recipient will be rolled out in two separate waves. The first of these payments will be made from November 2020, providing a much-needed boost in income during the pre-Christmas period. The second payment will be actioned in early 2021, with the Government yet to provide an exact timeline for the relief.

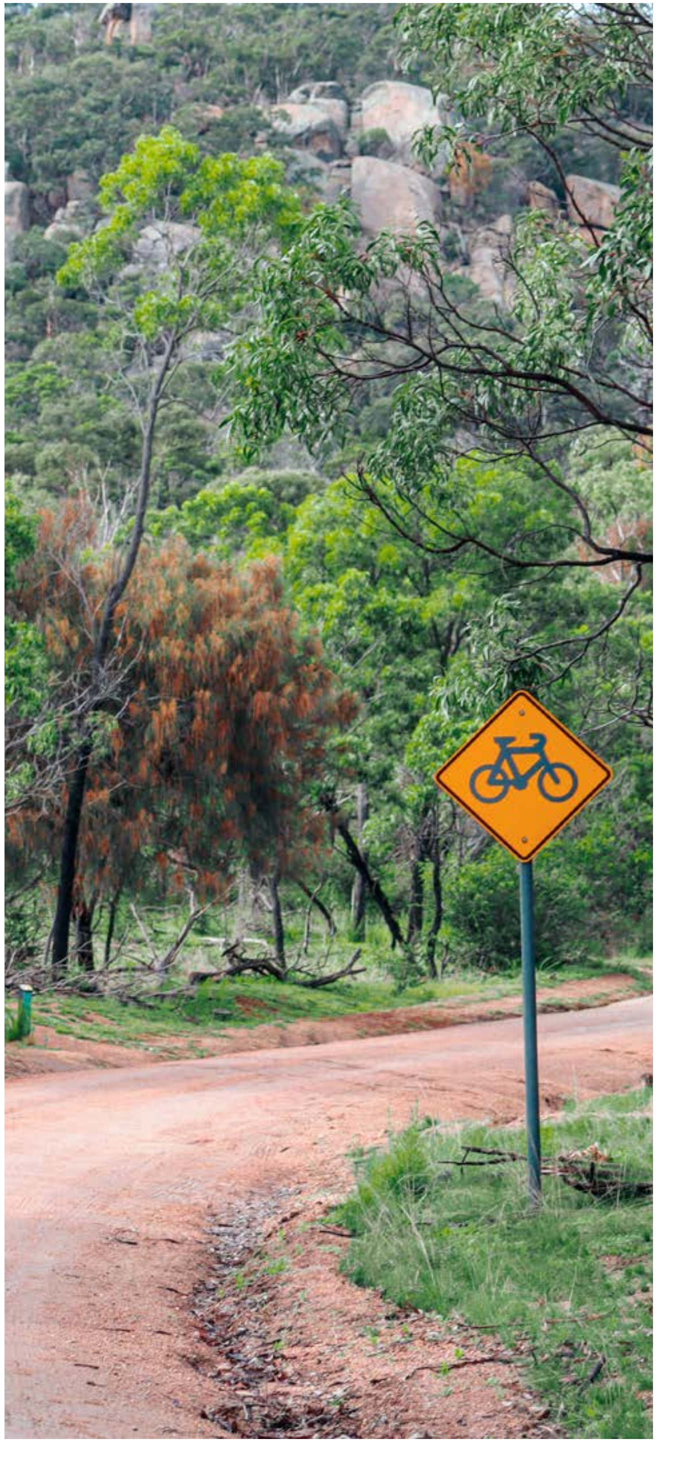
The eligible recipients include those who already receive the following payments:

- Age Pension
- Disability Support Pension
- Carer Payments
- Family Tax Benefits
- Double Orphan Pension
- Carer Allowance.

Additionally, these payments will also be available to Pensioner Concession Cardholders, Commonwealth Senior Cardholders, and Veteran Affairs Concession Cardholders. They will operate as a supplement for COVID-19 relief already provided to these same recipients via two $750 stimulus payments made in early April and July.

BDO COMMENT

BDO welcomes this announcement as stimulus for those who need it most. Crucially, these payments are non-assessable, and are not classified as income for the purposes of any other social security program. As such, they truly are free money as tax-free payments that do not compromise income received from other welfare channels.



SUPPORTING OLDER AUSTRALIANS

EXEMPTING GRANNY FLAT ARRANGEMENTS FROM CAPITAL GAINS TAX

With the current capital gains tax implications acting as a hindrance to families looking to implement formal and legally enforceable granny flat arrangements, the Government will remove these impediments by introducing a capital gains tax (CGT) exemption.

The exemption will specifically apply to arrangements with older Australians or those with a disability and where a formal written arrangement is in place. The Government's intention is that the introduction of formal and legally enforceable arrangements (without the potential tax consequences) will reduce the risk of financial abuse and exploitation of vulnerable Australians.

The new measure, which is expected to be implemented as of 1 July 2021, will remove any potential CGT implications to formal granny flat arrangements which provide accommodation to older Australians or those with a disability.

BDO COMMENT

BDO agrees that financial abuse and exploitation of family members can occur when informal arrangements are entered into. Rather than have families face potential trade-offs between CGT implications and security for granny flat residents, BDO welcomes the government's announcement as a compassionate and sensible policy.

INDUSTRY SPECIFIC MEASURES

MODERN MANUFACTURING STRATEGY

In welcome news, the Government has announced a new Modern Manufacturing Strategy as part of its JobMaker plan to stimulate the Australian economy through its recovery from the COVID-19 pandemic. The strategy will see $1.5 billion invested in Australian manufacturing over five years from 2020-21 targeting six National Manufacturing Priorities, identified as either areas of competitive strength or strategic national priority.

The National Manufacturing Priorities are:

1. Resources Technology and Critical Minerals Processing
2. Food & Beverage
3. Medical Products
4. Recycling & Clean Energy
5. Defence
6. Space.

The aim of the strategy is "to play to Australia's strengths, improve collaboration and commercialisation, and create a sector that is modern, dynamic and highly skilled." Industry itself will be engaged to collaboratively develop roadmaps for the priority sectors for two, five and ten year timeframes.

Funding will be delivered through three programs (Modern Manufacturing Initiative, Supply Chain Resilience Initiative and Manufacturing Modernisation Fund).

MODERN MANUFACTURING INITIATIVE

The Modern Manufacturing Initiative is the $1.3 billion flagship program underpinning the Modern Manufacturing Strategy. This program will deliver co-funding for large manufacturing projects with broad sectoral benefits across the six National Manufacturing Priorities. Specifically, the program will be delivered across three streams:

- Manufacturing Collaboration Stream
  - This stream will support significant projects involving business-to-business and business-to-research collaboration.
- Manufacturing Translation Stream
  - This stream will support manufacturers in translating good ideas into commercial outcomes, as well as supporting non-R&D innovation
- Manufacturing Integration Stream.
  - This stream will assist manufacturers in integrating into local and international supply chains and markets.

All three streams are expected to open for Applications during the first half of 2021.

SUPPLY CHAIN RESILIENCE INITIATIVE

The Supply Chain Resilience Initiative is a $107.2 million program to support businesses in establishing or scaling capabilities to address supply chain vulnerabilities. Eligible projects must:

MODERN MANUFACTURING STRATEGY

CONTINUED

- Demonstrate how they address supply chain vulnerabilities for critical products or inputs identified in a Sovereign Manufacturing Capability Plan
- Result in measurable strengthening of the supply chain.

This initiative will initially focus on health and medical products, including personal protective equipment. It will also be made available to sectors such as food, chemicals, and plastics.

Applications for funding will open after 1 July 2021.

MANUFACTURING MODERNISATION FUND

The Manufacturing Modernisation Fund was administered in 2019 to provide small and medium-sized manufacturers with funding to modernise their manufacturing processes, adopt new technologies, become more productive and create jobs. The fund was highly successful and has been renewed for a second round with an additional $52.8 million of funding. Round two will support approximately 150 firms that align with the National Manufacturing Priorities to make capital investments that will:

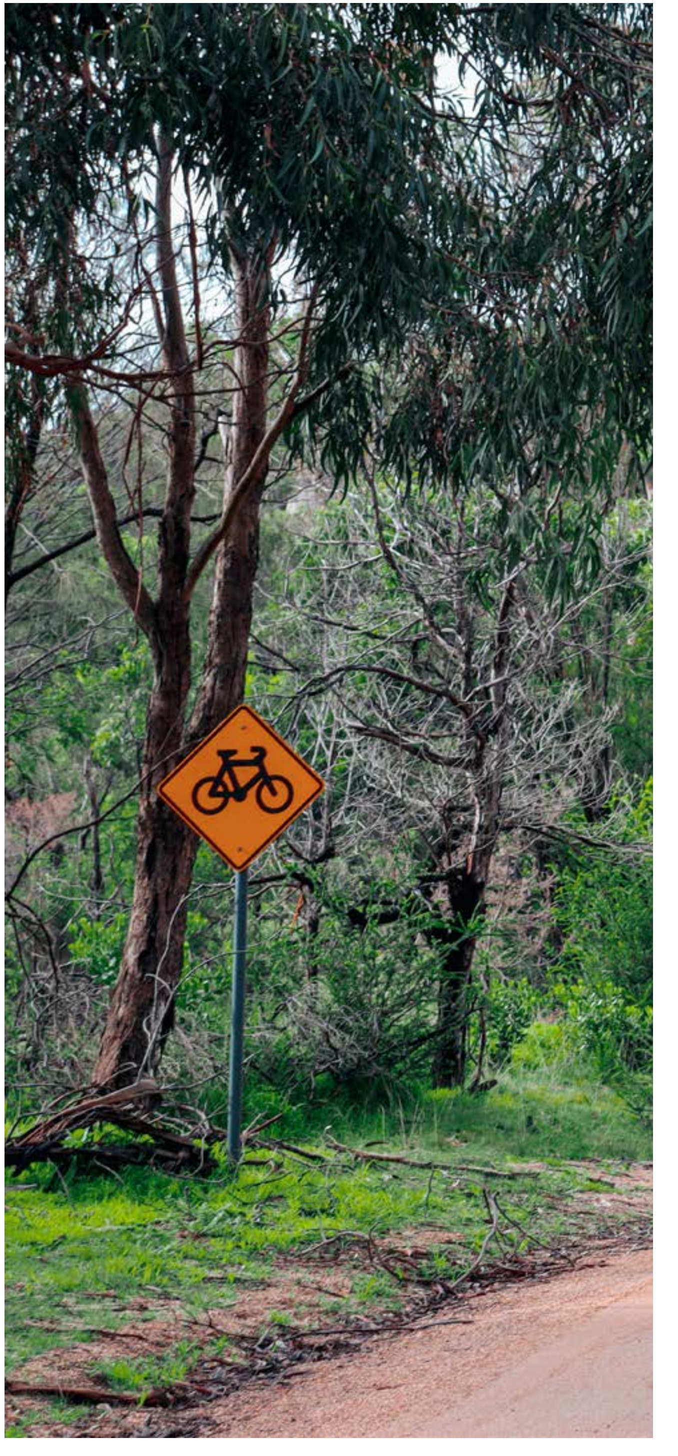
- Increase employment
- Upskill workers
- Invest in new technology to support the COVID-19 recovery.

Round two of the Manufacturing Modernisation Fund will open before the end of 2020.

BDO COMMENT

BDO welcomes targeted support for the manufacturing industry. Manufacturing currently represents below 6% of Australia's GDP, and its decline has contributed to a fall in Australia's Economic Complexity (a widely accepted measure of national prosperity). Improving this figure will be a key step in Australia's economic recovery, however, we would encourage expansion of the Manufacturing Priorities to accommodate a broader range of businesses.

Further, we note that grant programs are by their nature more opaque and provide no certainty in comparison to industry-agnostic entitlement programs. As such, we suggest that the implementation of any direct funding must be transparent and without bias.



JOBMAKER PLAN INFRASTRUCTURE INVESTMENT

The Federal Government has committed more than $12.5 billion in additional infrastructure funding across the country as part of its JobMaker Plan. The funding includes $5 billion for the *JobMaker Plan – Infrastructure Investment – road safety and upgrades*, *JobMaker Plan – Local Roads and Community Infrastructure Program extension* and a National Water Grid program. The remaining $7.5 billion has been allocated to priority road and rail projects across the states and territories.

State and Territory measures

Queensland

Queensland will benefit from a further $1.3 billion in funding for priority road and rail projects across the state. Significant funding includes:

- $750 million for the Coomera Connector Stage 1 (Coomera to Nerang)
- $201.2 million for the Bruce Highway
- $112 million for the Centenary Bridge Upgrade.

The additional funding will bring the Federal Government's total Queensland transport infrastructure commitment to more than $28.5 billion.

New South Wales

The Federal Government has committed an additional $2.7 billion to road and rail projects in New South Wales, bringing the total transport infrastructure commitment to more than $39 billion. Key funding measures include:

- $603 million for the New England Highway – Singleton Bypass and Bolivia Hill Upgrade
- $591.7 million for the Newell Highway Upgrade
- $490.6 million for the Coffs Harbour Bypass.

Australian Capital Territory

The Federal Government will allocate $155.3 million in funding for priority road projects in the Australian Capital Territory. Spending on major infrastructure upgrades will include:

- $87.5 million for the Molonglo River Bridge
- $50.0 million for the Canberra – Southwest Corridor Upgrade package.

The funding will bring the Federal Government's total ACT transport infrastructure commitment to over $975.0 million.

Northern Territory

The Federal Government will provide $189.5 million for priority road projects in the Northern Territory. This increases the Government's total contribution to transport infrastructure in the Northern Territory to over $2.7 billion. This funding includes:

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

South Australia

The Government has committed $625.2 million to priority road and rail projects in South Australia, bringing the total commitment to transport infrastructure in South Australia to over $9.8 billion. This funding includes:

- $200 million for the Hahndorf Township Improvements and Access Upgrade
- $136.0 million for the Princes Highway Corridor
- $136.0 million for the Main South Road Duplication Stage 2 — Aldinga to Sellicks Beach.

Western Australia

The Federal Government will provide an additional $1.1 billion over four years for Western Australia's priority road and rail projects, including:

- $227.1 million to Metronet for High Capacity Signalling and the Morley-Ellenbrook Line
- $87.5 million for the Reid Highway Interchanges at West Swan Road.
- The additional funding increases the Government's commitment to transport infrastructure in Western Australia to over $15.4 billion.

JOBMAKER PLAN INFRASTRUCTURE INVESTMENT

CONTINUED

Victoria

The Federal Government will contribute $1.1 billion towards road and rail projects in Victoria, increasing the total commitment to Victoria's transport infrastructure to over $31.5 billion. The additional funding includes:

- $320 million for the Shepparton Rail Line Upgrade
- $292 million for Barwon Heads Road
- $208 million for stage 2 of the Warrnambool Rail Upgrade.

Tasmania

The Federal Government has announced $359.6 million in additional funding for priority road projects in Tasmania. The funding includes:

- $150 million for the Hobart to Sorell Corridor, Midway Point Causeway and Sorell Causeway
- $72 million for the Tasman Roads Package include various highway upgrades.
- The additional spend increases the Federal Government's commitment to Tasmanian infrastructure to over $3.2 billion.

NATIONAL PROGRAMS

National Water Grid

The Federal Government will spend $2 billion across ten years on a priority water infrastructure investments program to support agricultural output and increase water security. The majority of the funding will provide grant funding for the planning and construction of water infrastructure in partnership with states and territories.

Local roads and community infrastructure program – extension

The Government will extend the *Local Roads and Community Infrastructure Program* at a cost of $1 billion over two years, increasing the total funding for the Program to $1.5 billion. The Program supports local councils to maintain and deliver social infrastructure and improve road safety.

Infrastructure Investment — road safety and upgrades

The Government will spend $2 billion over two years to fund small scale road safety upgrades, such as road widening, centre lines and barriers. The Government will provide funding to the states and territories upon successful delivery of road safety projects.

BDO COMMENT

BDO welcomes the Government's increased commitment to infrastructure projects across the country. The increased infrastructure spend will help to support economic recovery and jobs in the construction sector, while also providing flow-on economic benefits to the nation's tourism and transportation industries.

The National Water Grid program will afford well-needed support for the agricultural sector, while also increasing Australia's water security. The JobMaker Plan programs will allow local councils to engage directly with local businesses and workforces to deliver priority projects that increase road safety for all members of the community.

FEDERAL BUDGET LOOKS GOOD FOR AGRI

The 2020-21 Federal Budget looks strong for agribusiness and agriculture more broadly. It contains measures to bolster the ranks of on-farm workers in the absence of new working holiday makers, increase funding for drought preparedness program, and cash for critical infrastructure projects – all of which should improve the sustainability, competitiveness and efficiency of the sector.

KEY FEATURES

Many of the measures announced in the Budget will benefit agribusiness. For example, the continued immediate asset write-off program will facilitate investment in agricultural equipment and infrastructure through to 30 June 2022. Similarly, the ability for companies to carry-back losses of the 2019-20, 2020-21 and 2021-22 financial years and apply them to taxable income of the 2018-19 or later financial years will benefit agribusinesses facing ongoing global commodity pricing volatility and weather uncertainty.

This Budget provides welcomed substantial measures targeted specifically at agriculture. Broadly, they focus on several key themes:

- The agricultural workforce
- Drought
- Infrastructure, including technology
- Competition.

The agricultural workforce

In the face of the ongoing COVID-19 pandemic, with its associated international border closures, the availability of workers to assist with critical harvest tasks has emerged as a significant issue. The 2020-21 Federal Budget seeks to address this issue in the following ways:

- Encouraging recent school leavers to undertake agricultural work by introducing new, temporary independence criteria for Youth Allowance and ABSTUDY recipients
- Providing relocation assistance for Australians and individuals who have a right to work in Australia, to relocate to any harvest or regional area to take up short-term agricultural work, and under the Relocation Assistance to Take Up A Job scheme
- Working holiday maker visa holders working in food processing or the Agricultural sector will be eligible for a further visa and will be exempt from the six-month limit with one employer
- Seasonal worker program and Pacific labour scheme workers, and other visa holders currently in the agricultural sector whose visas are expiring, may have their visas extended for up to 12 months
- 50,000 new higher education short courses in sectors which include agriculture
- Reduced student contributions for university agriculture courses.

FEDERAL BUDGET LOOKS GOOD FOR AGRI

CONTINUED

Drought

The Budget contains ongoing funding for a range of programs and measures targeting drought. An additional $2.0 billion will be provided over five years for concessional drought loans provided through the Regional Investment Corporation. There is also increased funding for programs conducted under the Future Drought Fund, such as the Farm Business Resilience Program and Drought Resilience Adoption and Innovation Hubs. This Budget also extends the On-farm Emergency Water Infrastructure Rebate Scheme owing to the consistently high demand under this scheme.

Infrastructure, including technology

The Budget allocates $2 billion over 10 years from 2020-21 for the National Water Infrastructure Development Fund, which will fund the planning and construction of water infrastructure in partnership with States and Territory Governments. Additionally, the National Water Grid Authority receives $5.6 million to identify and develop suitable projects for inclusion in the 10-year plan.

Agricultural exporters have much to look forward to, with more than $320 million allocated to the development of modern digital services to underpin export permits and certifications. The solutions are expected to significantly cut red tape for exporters of regulated agricultural products, and will tie in with the Government's broader Single Trade System.

Competition

The Budget allocates funding for an ACCC inquiry into perceived imbalances of power in perishable agricultural goods supply chains. This review was announced by the Minister for Agriculture, David Littleproud, in August 2020.

BDO COMMENT

It is very welcome to see the measures in the 2020-21 Federal Budget that will benefit Agribusiness. The looming shortage of fruit picking and harvest labour has been of great concern. Whilst the measures to encourage greater domestic Agricultural workforce participation are welcome, it remains to be seen whether these will be sufficient to overcome the anticipated shortfalls. The programs to improve efficiency for Agricultural exporters will yield benefits over many years and will form a key platform for the Government's stated goal of significantly reducing non-tariff export barriers. Whilst falling far short of true tax reform, the tax measure in this Budget will provide medium term assistance for many Agribusiness taxpayers. BDO continues to advocate for broad tax reform, including making loss carry-back for primary producers a permanent feature of the law.

DRIVING JOBS THROUGH HOUSING

The Government has continued its commitment to creating jobs through housing - building upon the HomeBuilder Grant and First Home Loan Deposit Scheme. Over the next four years a further $0.6 million will be committed towards boosting housing demand and supporting the residential construction industry.

BUDGET MEASURES

With the commitment of $0.6 million the Government anticipates a $15.8 million fiscal impact over the next four years through:

- Extending the First Home Loan Deposit Scheme to provide an additional 10,000 guarantees in 2020-21 to enable eligible first home buyers to build a new home or purchase a newly constructed home with a deposit of 5%
- Delivering community housing providers with lower cost loans by increasing the National Housing Finance and Investment Corporation's (NHFIC) cap on total guarantee liabilities to $3 billion
- An independent review of the NHFIC aimed at ensuring housing outcomes are improving for Australians.

BDO COMMENT

The impacts of COVID-19 will be felt by Australians for years to come. Although the government's measures provide welcomed assistance to first home buyers and the residential construction industry, it does not provide any commitments beyond 2020-21. It is likely to be in these later years, as the current levels of government support wind back, that job creation and security will be heavily sought.

OTHER FUNDING MEASURES

The Government has announced a number of direct funding measures across science, innovation and energy. This includes:

JobMaker plan – investment in new energy technologies

$1.9 billion to support new and emerging technologies, in line with its earlier media release in September, comprising the following measures:

- $1.43 billion of continued funding for the Australian Renewable Energy Agency (ARENA) with the aim of investing in emerging low emission technologies. Importantly, this includes allowing the investment in soil carbon sequestration projects
- A $95.4 million co-investment fund targeted at supporting the identification and adoption of technologies that reduce emissions and increase technology for industrial, freight and agricultural businesses
- Various other measures including a $74.5 million Future Fuels Fund, expansion of the Regional and Remote Communities Reliability Fund to support micro grid pilot studies in regional/remote areas and $70.2million targeted at developing a regional hydrogen export hub.

Growing Australia's waste and recycling capability through Cooperative Research Centres projects

- To develop innovative solutions for recycling and reuse of plastics, paper, tyres and other problematic materials and hard-to-recycle waste
- $10.0 million to support industry-led collaborative research projects through the Cooperative Research Centres Projects.

JobMaker plan — Commonwealth Scientific and Industrial Research Organisation — supporting essential scientific research

- $459.2 million to address impacts of COVID-19 on its commercial activities to continue essential scientific research
- This includes $5 million to support the upgrade of CSIRO's agriculture and grazing research facilities.

Other support for regional Australia

Measures to support regional Australia to recover from the impacts of COVID-19 and recent natural disasters, build resilience to future economic shocks and support long-term economic growth. Key funding includes:

- $207.7 million for round five of the Building Better Regions Fund to support investment in community infrastructure and capacity building projects in regional areas, including $100.0 million for tourism-related infrastructure projects
- $41.0 million to establish the Securing Raw Materials Program and the Regional Cooperative Research Centres Project to support research and development activities in regional areas
- $30.3 million to extend round one of the Regional Connectivity Program to support the delivery of reliable, affordable and innovative digital services and technologies in regional Australia.

BDO COMMENT

BDO welcomes the additional funding to support new and emerging technologies across a variety of sectors. In particular, the encouragement of industry-led collaboration with research centres, as well as the focus on a rural recovery and new energy technologies is a positive step to developing an innovative and resilient economy.

ADDITIONAL SUPPORT FOR STUDENTS AND THE HIGHER EDUCATION SECTOR

The Government announced several measures to support Australian students and higher education providers to safeguard them from the ongoing impacts of the COVID-19 pandemic.

Funding has been provided for Australians wanting to access higher education. In particular, $298.5 million will be provided for an additional 12,000 Commonwealth supported places in 2021 in national priority areas to meet demand and $251.8 million over two years for an additional 50,000 subsidised higher education short course places across a range of disciplines.

As higher education providers transition to new funding arrangements as part of the *Job-ready Graduates* reforms, the Government has also guaranteed Commonwealth Grant Scheme payments at an estimated cost of $328.9 million aimed to help universities manage the economic stabilities created by COVID-19.

Significant research infrastructure, secure research jobs and strengthened partnerships between industry and universities are also funded with several measures including:

- $41.6 million to establish a *Strategic University Reform Fund* to bring universities and local industries together to partner on innovative reform projects
- $1.0 billion through the *Research Support Program* to support universities' costs of research
- $36.3 million over three years for the early implementation of the Sea Simulator project to support the *Great Barrier Reef Restoration and Adaption Program.*

Australia's Vocational Education and Training system has also been funded for future years to better support the operation of the Australian Apprenticeship Support Network and National Careers Institute, expansion to the *Skills for Education and Employment* program, and the development of a National Skills Priority List for apprenticeships.

Various initiatives to support disadvantaged students and those most impacted by COVID-19 are also proposed.

BDO COMMENT

BDO is optimistic that the support for strengthened partnerships between universities and industries will provide an excellent opportunity for businesses to grow. The question is whether this funding will be sufficient to allow the higher education sector to withstand the changes wrought by previous funding decisions and the impact of COVID-19.

BREATHING SPACE FOR DISTRESSED BUSINESS

Reforms will be introduced to support small business with changes to the insolvency framework.

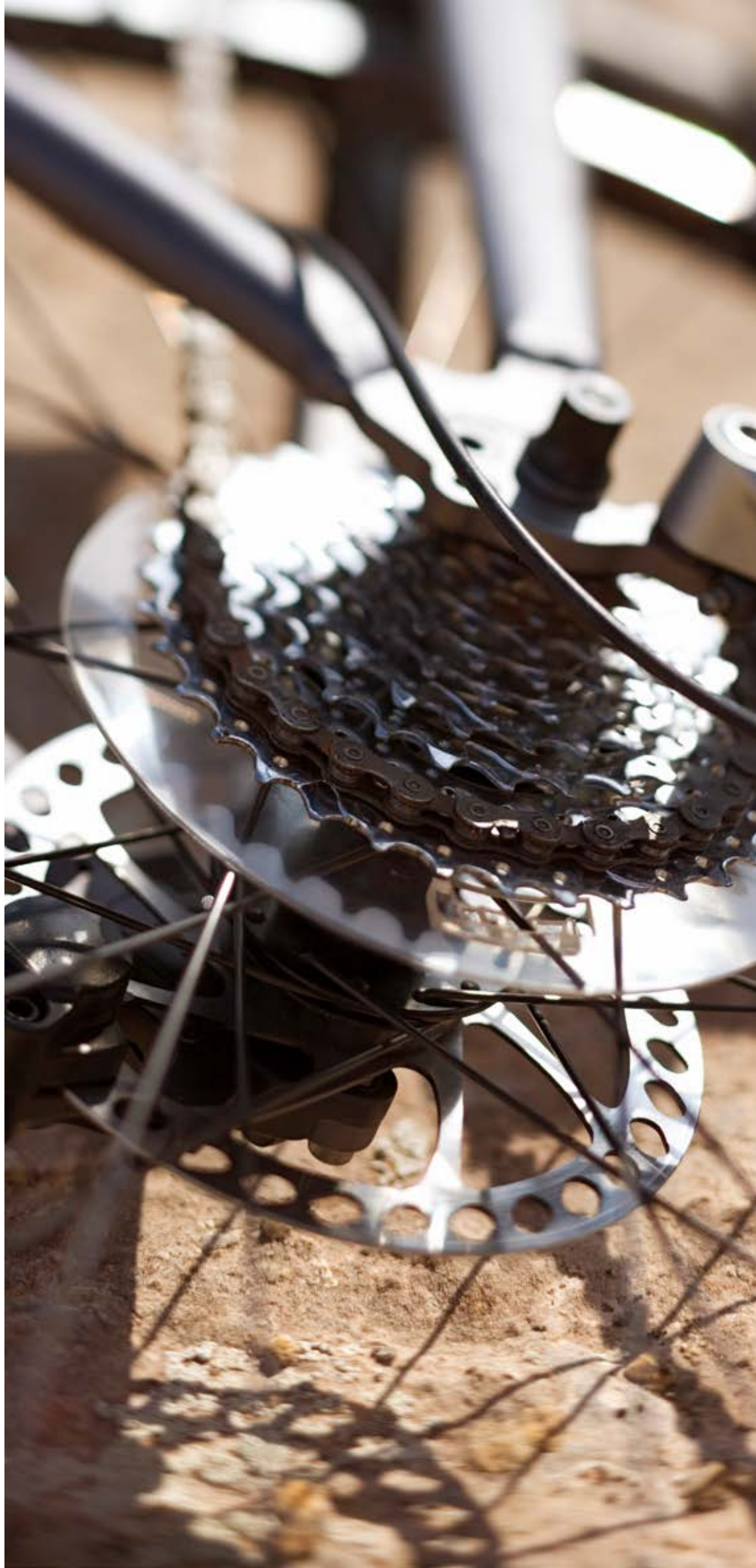
These changes announced include:

- The introduction of a new debt restructuring process for business liabilities of less than $1 million, drawing on inspiration from the Chapter 11 bankruptcy model in the US
- Moving to a more flexible 'debtor in possession' model which will allow eligible small businesses to restructure existing debts without giving up control of their business
- A rapid 20 business day period for a small business restructuring practitioners to develop a restructuring plan, followed by 15 days for creditors to vote on the plan
- A streamlined liquidation process for small businesses.

The proposed changes are in response to feedback that the current 'creditor in possession' model and onerous restructuring process are unworkable and crippling for many smaller businesses. These changes are intended to reduce costs for small businesses, reduce the time they spend during the insolvency process and keep businesses alive.

BDO COMMENT

In the face of COVID-19, with interstate and international travel stifled, and an unrelenting lockdown in Melbourne, BDO expects the use of these measures will unfortunately be front and centre. As with all such measures, expert advice at an early stage will be vital to ensuring that business owners and directors don't unwittingly fall into insolvency traps.



CHILD CARE RECOVERY PACKAGE COMMITMENT

The third stage of the Government's COVID-19 childcare support measures have been confirmed and take effect from 28 September 2020 to 31 January 2021. Aimed primarily at supporting the industry, employees and parents in Victoria, the benefits can be extended if similar outbreaks occur elsewhere in the country and restrictions come into force.

RECOVERY PACKAGE

Providers will receive a Recovery payment, calculated as 25% of their average weekly fees charged up to the fee cap for Centre Based Day Care, Family Day Care and In Home Care.

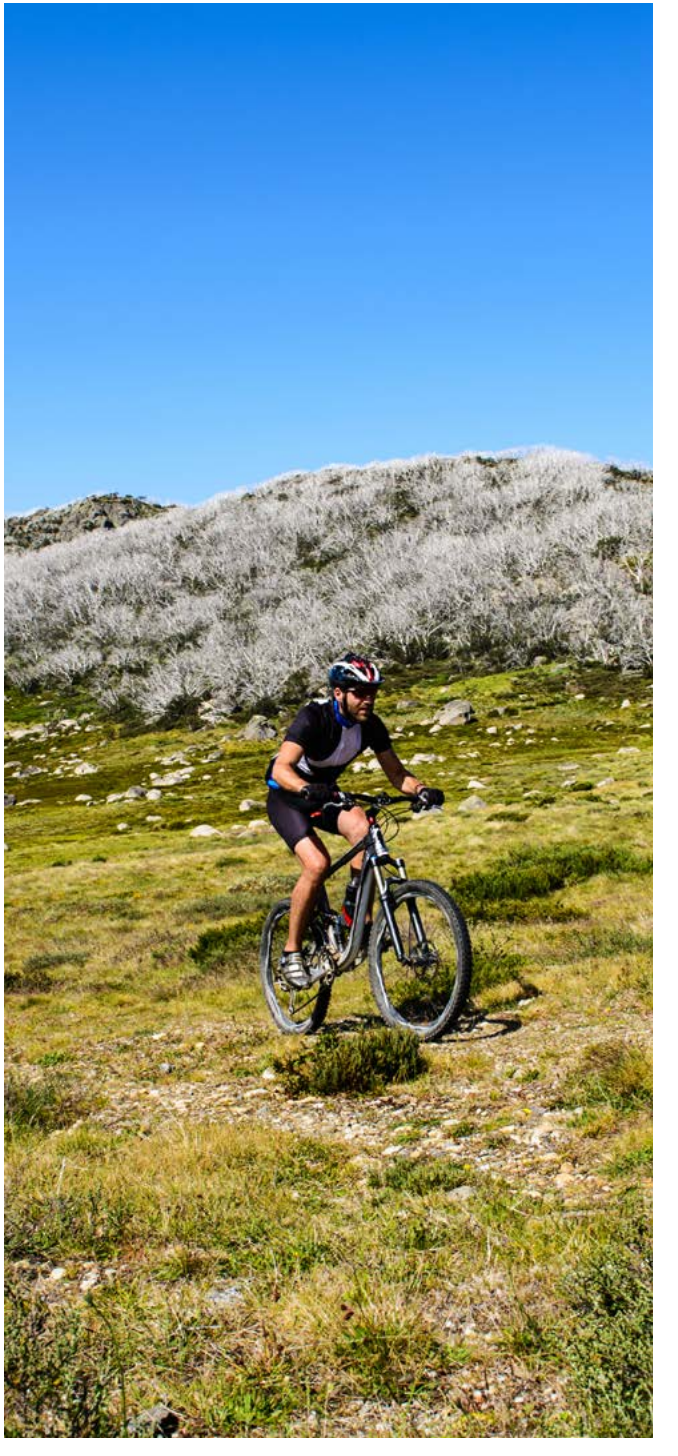
Existing support payments for Outside School Hours Care in Melbourne will remain until school returns to normal. After this time, in addition to the Recovery payment, Providers will receive an additional 15% payment until the end of the school year. Vacation care Providers won't miss out, and will be eligible for any weeks they are operational until the package ends.

To be eligible for the recovery package, Providers must freeze fees at February 2020 levels whilst receiving the payments, and cannot stand down their employees.

Victorian children have had an extra 30 days of allowable absences added to their accounts, extending the total allowable absences for 2020-21 to a total of 72 days.

BDO COMMENT

BDO welcomes the child care sector support which provides certainty to parents to be able to return to pre-COVID-19 working and child care arrangements, as restrictions ease.



TECHNICAL MEASURES

CLARIFYING THE CORPORATE RESIDENCY TEST

The Government will make technical amendments to clarify the corporate residency test in relation to companies incorporated offshore. This measure is consistent with the Board of Taxation's key recommendation in its 2020 report: *Review of Corporate Tax Residency*.

CURRENT LAW

Under the current corporate residency test, a company incorporated offshore is an Australian resident if it carries on business in Australia and either has its central management and control in Australia, or its voting power is controlled by shareholders who are residents of Australia.

Prior to 2017 the Australian Taxation Office (ATO) generally took the view that the 'carrying on of a business' was separate to the 'central management and control' test. However the ATO recently changed its view such that merely exercising central management and control may in itself constitute the carrying on of a business.

PROPOSED LAW

The Government is proposing to amend the law to provide that a company which is incorporated offshore is an Australian resident if it has a 'significant economic connection to Australia'. The test will be satisfied where both the company's core commercial activities are undertaken in Australian and its central management and control is in Australia.

This proposed measure will have effect from the first income year following the date of Royal Assent, however taxpayers will have the option of applying the new law from 15 March 2017 (the date on which the ATO withdrew its ruling TR 2004/15 *Income tax: residence of companies not incorporated in Australia – carrying on a business in Australian and central management and control)*.

BDO COMMENT

BDO considers this change to the corporate residency tests to be long overdue, and welcomes this measure subject to seeing details of the draft legislation. The ambiguity surrounding the application of the existing corporate residency tests produces commercial uncertainty and places unnecessary compliance burdens on taxpayers. The clarification is welcome, but will be of little solace to companies that have been engaged in disputes with the ATO for the last three or more years.

JOBMAKER PLAN – CROSS PORTFOLIO

The Treasurer has unleashed a number of JobMaker plans aimed at supporting the economy recovery through cutting red tape, driving progress through digitisation and enabling more women to enter, and stay in the workplace. The three distinct measures of the JobMaker Plan, being the Deregulation Package, Digital Business Plan and the Second Women's Economic Security Package are all measures designed to make it easier for businesses to operate, invest and create jobs.

DEREGULATION PACKAGE

The Treasurer has announced that he will provide $92.1 million over four years from 2020-21 to support economic recovery through a fresh whole-of-government focus to improve regulatory practices. Of particular note include:

- $40.4 million over ten years from 2020-21 to provide additional resourcing for the Emissions Reduction Assurance Committee, build IT infrastructure and support a new Australian Carbon Credit Units exchange trading platform and streamline the Clean Energy Regulator's IT systems
- $18.5 million over four years from 2020-21 to streamline approval processes into a single application across jurisdictions, allowing for faster establishment of new early childhood education and care businesses
- $17.9 million over three years from 2020-21 to modernise the Therapeutic Goods Administration business systems to streamline processes for the medicines and medical devices industry
- $1.8 million over two years to trial a series of regulatory reporting reductions for Australian businesses.

DIGITAL BUSINESS PLAN

As part of its JobMaker Plan, the Government has announced funding of $796 million over four years to support Australia becoming a leading digital economy. The measures are broadly targeted at supporting modern digital infrastructure, reducing regulatory barriers, and enhancing the digital capacities of government. Important funding measures announced include:

- $22.1 million towards the establishment of the Australian 5G innovation initiative to support private sector investment in 5G
- $19.2 million towards the Australian Small Business Advisory services – Digital Solutions program to provide support to an additional 10,000 small businesses
- $419.9 million over four years from 2020-21 to transfer existing business registers to modernised platform to allow the creation of a single, accessible and trusted source of business data
- $256 million will be provided over two years to develop and expand digital identity to improve access to government services and payments online.

SECOND WOMEN'S ECONOMIC SECURITY PACKAGE

The Treasurer has announced that he will provide $231.0 million over four years from 2020-21 to support economic recovery through employing more women in the workforce via the following measures:

- $90.3 million over three years from 2020-21 for concessional work test arrangements for Paid Parental Leave in response to COVID-19, effectively allowing parents to qualify for the payment if they have worked in 10 of the last 20 months, instead of 10 of the last 13 months, proceeding the birth or adoption of a child
- $47.9 million over four years from 2020-21 to increase grants for the *Women's Leadership and Development Program*
- $35.9 million over five years from 2020-21 to increase the number of co-funded grants to women-founded start-ups under the *Boosting Female Founders Initiative* to provide access to expert mentoring
- $25.1 million over five years from 2020-21 to establish a *Women in Science, Technology, Engineering and Mathematics (STEM) Industry Cadetship* program to support 500 women working in STEM industries to complete an Advanced Diploma.

BDO COMMENT

The pandemic has certainly shone a light on inadequacies relating to overregulation and a lack of digitisation across the majority of industries and the Government alike. It is certainly refreshing to see the Government aiming to drive progress through the digital economy where we have seen productivity thrive through the working from home environment. It will be essential that the Government looks to enhance this capacity as it seeks to keep up with the rest of the world. It is also welcome to see that the Government is making women in business central to the future growth of the economy.

AUSTRALIAN CHARITIES AND NOT-FOR-PROFITS COMMISSION REVIEW PROGRAM

In the 2020-21 Federal Budget, it was announced that the Government would be providing funding over a three year period, beginning from 2020-21 for the Australian Charities and Not-for-profits Commission (ACNC) Review Program. Where charities are at a high risk of failing to meet its obligations under the ACNC standards, the Government is implementing field-based compliance reviews to facilitate early intervention.

COMPLIANCE WITH ACNC REGULATIONS

The ACNC is the independent national regulator of charities and is responsible for administering regulations and ensuring charities comply with their obligations. Currently, a compliance review conducted by the ACNC reviews a charity's general level of compliance with the *Australian Charities and Not-for-profits Commission Act 2012* (Cth) (ACNC Act) and addresses any risks identified.

From 2020-21 the Government will provide a total of $2.9 million over a three year period to implement a compliance review program in order to intervene at an early stage where charities are at a high risk of failing to meet its regulatory obligations of the ACNC.

Compliance reviews conducted by the ACNC help to uphold and establish public trust and confidence in the Australian not-for-profit sector. The implementation of the field-based review function will provide greater assurance to Government and the public that charities are utilising income for charitable purposes and have appropriate governance structures in place.

BDO COMMENT

In light of the disastrous events that have unfolded over the current year, it is now more important than ever that the general public and Government can maintain confidence in the Australian not-for-profit sector. Particularly, it is important that the public and Government have assurance that charities are compliant with the ACNC Act and are utilising income for charitable purposes. Charities should begin a process of self-review now to ensure that they are compliant with the appropriate standards before the ACNC begins any review.

STRENGTHENING AUSTRALIA'S FOREIGN INVESTMENT FRAMEWORK

In order to support more effective and efficient foreign investment application processing and compliance activities, the Federal Government has announced in the 2020-21 Budget Measures Paper it will commit $86.3 million over four years to implement a new online platform and a new consolidated Register of Foreign Ownership of Australian Assets. This measure is expected to increase the underlying cash balance by $54.7 million from 2020 to 2024.

THE FIRB APPLICATION PROCESS

Foreign persons who plan on undertaking direct investment in Australian real estate, businesses and certain assets are first required to obtain approval from the Foreign Investment Review Board (FIRB).

Once a foreign investor begins the application, the FIRB examines the proposal and makes a recommendation to the Australian Government as to whether the application is suitable for approval under the Government's foreign investment policy.

SIMPLIFYING THE APPLICATION PROCESS

In order to resolve the complexities of the FIRB application process, the Government has announced it will commit $86.3 million over four years to implement a new online platform and a new consolidated Register of Foreign Ownership of Australian Assets. These new measures are placed in addition to the $54.1 million over four years in net funding as previously announced in the *July 2020 Economic and Fiscal Update*, for *Reforming Australia's Foreign Investment Framework*. The Budget changes will additionally seek to simplify the foreign investment fee framework and adjust fees from 1 January 2021, ensuring that foreign investors alone bear the administration costs, not Australian taxpayers.

BDO COMMENT

We support the introduction of a more streamlined platform, in order to reduce processing delays and remove additional costs for foreign investors where the wrong FIRB application form is submitted. Despite these changes, the underlying processes and the quantum and the complexity of information required to be submitted to the FIRB remains unchanged. Additionally, the 'adjustment' to the fee schedule will likely see increased application fees charged to offset the costs of the streamlined system.

EXPANDING LIST OF INFORMATION EXCHANGE COUNTRIES

The Government has announced an update to the list of information exchange countries. Tax residents in the listed countries access the reduced Managed Investment Trust (MIT) withholding tax rate of 15% rather than the default rate of 30% for certain fund payments made by Australian MITs to overseas investors.

The current MIT regime provides for the reduced withholding tax rate for 122 listed countries which have established a legal relationship with Australia, enabling them to share taxpayer information with the Australian revenue authorities. This update will add the Dominican Republic, Ecuador, El Salvador, Hong Kong, Jamaica, Kuwait, Morocco, North Macedonia and Serbia to the list, and will be effective from 1 January 2021. It will also remove Kenya from the list as it has not yet entered into an information sharing agreement with Australia.

BDO COMMENT

With the addition of nine countries to the information exchange country list, this measure aims to make the MIT regime and investment into Australia more attractive to new international investors. In particular, this measure will assist in attracting investors from the Asian region. Despite the recent political climate and unrest, it is likely to remain an important source of funds for new investment into Australia.

After last year's additions, a further expansion to the list of information exchange countries continues to reinforce the Government's commitment to international tax transparency through the use of concessional MIT withholding rates as an incentive for jurisdictions to sign information sharing agreements with Australia.

COVID-19 BUSINESS SUPPORT GRANTS: NON-ASSESSABLE, NON-EXEMPT INCOME

The Government has announced that business support grants received by small and medium-sized businesses will be treated as non-assessable, non-exempt income (NANE income). The measure is currently applicable for any grant payments received by Victorian businesses under the ‘Business Resilience Package’ announced by the Victorian Government.

Grant payments that are not identified by the Government as eligible payments under this measure will continue to be treated as taxable income.

Eligibility to treat grant payments announced by States and Territories as NANE income will be determined on an application basis, and will be restricted to grant programs announced on or after 13 September 2020 in relation to payments made from 13 September 2020 to 30 June 2021.

The Government has conferred a regulation making power in the income tax laws which is intended to ensure that eligible COVID-19 related business support payments will be treated as NANE income.

BDO COMMENT

In light of the ongoing pressure COVID-19 is placing on businesses, BDO supports this measure which will ensure that the full amount of these grants will remain in the hands of businesses that have been most affected by the pandemic. Whilst this measure is currently limited to support payments delivered to Victorian businesses under the recently announced Business Resilience Package, it will be interesting to see how the Government will employ their regulation-making power to determine what future grant payments will be deemed eligible for this support measure.

FURTHER FUNDING TO CRACKDOWN ON ORGANISED CRIME

n the 2017-18 Federal Budget, the Government announced that it would provide funding to the Australian Taxation Office (ATO) to target serious and organised crime in the tax system. This integrity measure was implemented to enable the ATO to continue its compliance work against such crime.

2020-21 EXTENSION

With the Government's original funding due to cease on 30 June 2021, the Morrison Government will provide $15.1 million in further funding to target serious and organised crime in the tax and superannuation systems. This funding will extend the original budget measure by an additional two years to 30 June 2023.

The Government estimates that this measure will ultimately provide a gain to the budget of $136.8 million over the next four years.

BDO COMMENT

BDO acknowledges that serious and organised crime imposes significant costs to Australia, and in particular, its honest businesses and individuals. In a time where these taxpayers are likely to be hurting the most, BDO supports the Government's continued commitment to crack down on these crooks.

TRANSPARENCY FOR SUPER FUND MEMBERS

The Government will provide additional funding over four years to implement changes to protect superannuation member's retirement benefits via increased levies on regulated financial institutions.

Some of the measures include:

- Your super will follow you to prevent the creation of unintended multiple superannuation accounts by 'stapling' an existing superannuation account to an individual
- The ATO will develop a tool to allow new entrants into superannuation to compare and select a My super product, via the yourSuper portal
- Providing an obligation on funds to align performance with members' best interests to ensure that members' retirement savings are maximised
- The Australian Prudential Regulation Authority (APRA) will benchmark superannuation products annual net investment performance and will hold fund Trustees accountable for that performance. Underperforming products may be restricted from taking on new members.

BDO COMMENT

Any measures that make it less likely that superannuation members will lose touch with their superannuation account are to be welcomed, as are measures to increase efficiency. Super fund performance benchmarking will provide greater transparency and accountability for underperforming funds.

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