Business SA: Federal Budget Summary

October 2020

Business SA
Chamber of Commerce
and Industry South Australia

Highlights

The 2020/21 Budget is predominately focused on businesses, with major new incentives to both invest and hire. The Temporary Full Expensing measure is the anchor measure of the Budget with all businesses able to fully expense the cost of a new eligible asset, effectively bringing forward all depreciation benefits. The reintroduction of loss carry-back rules for incorporated entities is also going to provide a potential break for many companies which paid income tax in 2018/19 but have since incurred losses due to COVID-19.

The Jobmaker Hiring Credit scheme will provide a $100 to $200 per week subsidy for new hires under the age of 35 for expanding businesses, while the Boosting Apprenticeships Commencements scheme funds 50 per cent of new apprentice and trainee wages for the next 12 months. Both measures are squarely targeted at young people that have borne the brunt of COVID related job losses to date.

Low and middle income earners will receive a big boost from Stage 2 tax cuts coming forward to 1 July 2020, with an average worker on $75,000 receiving an additional $2,160 per annum. This will also provide a broader economic stimulus, with employees in the relevant tax threshold range more likely to spend the additional tax savings. Importantly, small non-incorporated business owners will also benefit from these tax cuts.

With $625m of new infrastructure spending announced for South Australia, there are no new game changing projects which Business SA had argued for, including the duplication of the Augusta Highway, but an additional $100m for sealing the Strzelecki track will significantly benefit the mining, gas and livestock sectors.

Economic and Fiscal Overview

The Federal Budget has been delivered against a backdrop of Australia experiencing its worst economic downturn since the Great Depression and fiscal stimulus at levels not experienced since the second world war. All that considered, unemployment at 6.8 per cent compared with 4.9 per cent in April 2019, at the time the last Federal Budget was released, is much better than expected earlier in the pandemic period. However, a substantial 11.2 per cent of the workforce remains underemployed, against 8.2 per cent in April 2019. Further, a substantial proportion of jobs are still being supported by JobKeeper and JobSeeker which continue in various tranches until 28 March 2021. The national unemployment rate is forecast to peak in the December Quarter 2020 at 8 per cent.

The world economy is also in sharp contraction, and is expected to fall 4.5 percent in 2020, the most significant drop since the Great Depression. However, the Chinese economy is still forecast to grow by 1.75 per cent in 2020 and 8 per cent in 2021. This is critical in supporting both Australia and South Australia's export markets, although strong concerns remain about the impost of wine tariffs from the current anti-dumping investigation.

The onset of COVID-19 has brought with it an unprecedented level of Government fiscal support which is evidenced in both the substantial $85.3b deficit for 2019/20, and $213.7b deficit for 2020/21. The Australian economy has also sharply contracted into its first recession in 29 years, coming off 2 per cent per cent real GDP growth over 2018/19 to fall by 0.3 per cent in the March Quarter, 2020 and a record 7.0 per cent in the June Quarter, 2020.

Fortunately, Australian exports are still holding up with the value of overseas goods exports at $369b only down 3.3 per cent over the year to August 2020. This compares with South Australian goods exports at $11.2b, down 2.2 per cent over the same period. However, the Budget forecasts national exports to fall by 9 per cent in 2020-21 before a return to 2 per cent growth in 2021-22. Fortunately, mining and agricultural exports are still forecast to grow over the next two years providing resilience to the broader economy.

While services exports only account for 16 per cent of total exports for Australia, they are down 40 per cent over the past 12 months; not surprising on the back of restrictions decimating the tourism and international student sectors. Looking forward, services exports are expected to fall a further 37 per cent in 2020-21 and 4½ per cent in 2021-22.

	Actual economic growth (real GDP)			Forecast economic growth (real GDP)			
Budget release	**17/18**	**18/19**	**19/20**	**20/21**	**21/22**	**22/23**	**23/24**
Mid-year Budget Review (Dec 19)	2.80%	1.90%	-	2.75%	3.00%	3.00%	-
Budget 20/21 (Oct 20)	-	-	-0.20%	-1.75%	4.75%	2.75%	3.00%

Australia's economic growth forecasts remain subject to a high degree of uncertainty based on the likely path of the COVID-19 pandemic. It is also clear that the balance of the current financial year will remain quite challenging with negative growth, and the Government is banking on a very strong rebound in the economy in 2021/22 as the expected COVID-19 vaccine becomes widely available.

Following a record fall of 12.1 per cent in the June quarter 2020, household consumption is expected to recover over the forward estimates. While the growth in consumption is expected to be rapid in the near term, particularly on the back of substantial tax cuts, consumption is expected to remain below pre-COVID-19 levels until the end of 2021.

Considering migration has been a major driver of economic growth in recent decades, particularly for the Eastern States, net overseas migration is assumed to fall from around 154,000 persons in 2019-20 to be around -72,000 persons by the end of 2020-21, before gradually increasing to around 201,000 persons in 2023-24. This translates to forecast population growth of only 0.2 per cent in 2020/21 and 0.4 per cent in 2021-22.

New business investment is forecast to fall by 9.5 per cent in 2020-21, driven by a significant deterioration in the outlook for non-mining investment, before growing by 6 per cent in 2021-22. This comes off a 3.5 per cent fall in new business investment in the June Quarter 2020, mostly a result of the largest decline in new machinery and equipment investment in 10 years. Business SA expects the significant depreciation incentives announced in the Budget will provide a substantial boost to businesses, particularly given the ability to fully expense the cost of any new eligible asset.

	Actual Budget (cash) balance $ b			Forecast Budget (cash) balance $ b			
Budget	**17/18**	**18/19**	**19/20**	**20/21**	**21/22**	**22/23**	**23/24**
19/20	-14.5	-0.7	-85.3	10.40	19.10	9.80	-
Mid-year Budget Review (Dec 19)	-	-	-	5.80	9.70	2.90	-
20/21	-	-	-	-213.7	-112	-87.9	-66.9

The forecast Budget outcome of a $213.7b deficit for 2020/21 is a substantial step change on recent years but in line with the unprecedented level of fiscal support provided by the Federal Government since the onset of COVID-19. Prior to the Budget, the Government had provided $409b in COVID-19 related funding, with an additional $98b in new measures announced in the Budget, bringing the new total to $507b. The fact that Australia will still be running a Budget deficit of nearly $70b in three years time, higher than that reached during the height of the GFC, $55b, is testament to the economic shock of COVID-19.

	Forecast net debt $ b				
Budget	**19/20 (Actual)**	**20/21**	**21/22**	**22/23**	**23/24**
20/21	491.20	703.20	812.10	899.80	966.20

Gross debt is expected to be 44.8 per cent of GDP at 30 June 2021 and increase over the forward estimates before stabilising at around 55 per cent of GDP in the medium term. Net debt is expected to peak at 43.8 per cent of GDP at 30 June 2024 and fall to 39.6 per cent of GDP by the end of the medium term.

It is important to recognise that the previous cycle of Australia's net debt peaked at $96.2b in 1996/97 and took the Howard Government a decade to pay down entirely.

	Actual Budget (cash) balance $ b		Estimates $ b			
Budget	**18/19**	**19/20**	**20/21**	**21/22**	**22/23**	**23/24**
Receipts	485.3	469.4	463.8	451.9	482.6	526.4
Expenses	460.30	578.5	670.3	567.5	574.9	596.6

More than $50b in tax relief to households and businesses across the forward estimates will have a material impact on tax receipts for the Government with tax receipts only returning to pre-COVID levels during 2022-23. At the same, Government spending will increase significantly and is estimated to remain far higher over the forward estimates as the Government actions its COVID recovery plan.

Economic & Fiscal Overview

The Federal Government has assumed that over the forward estimates period that material localised outbreaks of COVID-19 occur but are largely contained. Further, a population-wide Australian COVID-19 vaccination program is assumed to be fully in place by late 2021 and general social distancing restrictions are assumed to continue until a vaccine is fully available. It is also expected that all internal border restrictions will be lifted by the end of 2020, aside from that of Western Australia which is forecast to remain in place until April 2021.

The Federal Government has budgeted $1.7b over two years from 2020-21 to secure access to over 84.8 million doses of potential vaccine candidates developed by the University of Oxford and the University of Queensland. The Government is also investing $123.2m to join the international COVAX facility, to provide Australia access to a large portfolio of vaccine candidates around the world.

GST

The following is a recent history of South Australia's total GST payments:

1. SA's share of the GST pie announced in the 2018-19 State Budget (released September 2018):

   17/18 - $6.375b (actual)

   18/19 – $6.887b (forecast)

   19/20 - $7.245b (forecast)

2. SA's GST allocation announced in the Commonwealth Grant's Commission February 2019 update:

   18/19 – $6.815b (forecast)

   19/20 - $6.946b (forecast)

3. SA's GST allocation confirmed in the 2019-20 Federal Budget:

   18/19 – $6.70b (actual)

   19/20 - $6.76b (forecast)

4. SA's GST allocation announced in the CGC February 2020 update:

   20/21 – $6.26b (forecast)

   It is important to recognise that in this most recent CGC update, South Australia's relative fiscal capacity compared to other jurisdictions increased and resulted in the loss of $499m in GST revenue.

5. SA's GST payments confirmed in 2019-20 Federal Budget Outcome (released September 2020):

   19/20 – $6.095b

6. SA's GST payments forecast in the 2020/21 Federal Budget

   20/21 – $5.61b

The 2020/21 Federal Budget confirmed the following GST distributions to all States and Territories:

18/19 – $65.2b

19/20 - $60.24b (down $5b)

20/21 - $59.98b (forecast)

While South Australia is receiving less GST than in previous years, we are also subject to the fact that the entire GST pool has declined by approximately 8.7 per cent over the past two years. South Australia has also lost GST as a result of its improving position relative to other States. From Business SA's perspective though, this serves to highlight the longer term challenges of relying on the GST in its current format which excludes key areas of Government expenditure, primarily health and education, and is levied at a rate half the OECD average of 19.3 per cent.

In terms of aggregate Commonwealth payments to South Australia, the following table shows that we are receiving approximately 3.9 per cent less in 2020/21, largely a result of a decline in GST payments.

Actual Commonwealth payments to South Australia $ b			Forecast Commonwealth payments to South Australia $ b
17/18	**18/19**	**19/20**	**20/21**
10.59	11.69	10.35	9.96

Key Budget measures for business and the South Australian Economy

1. Tax

a) Stage 2 personal income tax cuts brought forward:

The Federal Government had previously legislated a package of substantial income tax cuts across two tranches. Stage 1 was legislated in 2018 and Stages 2 and 3 in 2019.

Stage 1 tax cuts became effective in 2018/19 when the Government introduced a Low and Middle Income Tax Offset for four years until 2021/22, as well as increasing the 32.5 per cent personal income tax bracket threshold from $87,000 per annum to $90,000 per annum.

Stage 2 income tax cuts were to come into effect in 2022/23 but the Federal Government has now brought forward Stage 2 to 1 July 2020:

- The low-income tax offset will provide up to $255 in tax relief as it increases from $445 to $700
- The top threshold of the 19 per cent bracket will increase from $37,000 to $45,000. This will provide up to $1,080 in tax relief
- The top threshold of the 32.5 per cent bracket will increase from $90,000 to $120,000. This prevents average income earners from facing higher marginal tax rates in the future and provides tax relief of up to $1,350

For an average worker in South Australia on $75,000 per annum, Stage 2 tax cuts represent a saving of $2,160 per annum which is likely to have a substantial stimulatory impact on the local economy, particularly with the tax cuts backdated to 1 July 2020.

Stage 3 income tax cuts remain as scheduled to be introduced in 2024/25.

Business SA and the Australian Chamber of Commerce and Industry (ACCI) had called for the legislated Stage 2 and 3 income tax cuts to be brought forward in light of the COVID-19 pandemic, including to benefit non-incorporated business structures including sole-traders, partnerships and some trusts.

This is very important considering companies only account for around one quarter of South Australian businesses. It is also critical given many non-employing businesses have not being able to access an equivalent level of financial support during the pandemic period, particularly if they are family businesses with multiple family members involved but not technically as employees. In such instances, for example in relation to JobKeeper, only one family member is eligible.

	2017 - 18	2020 - 21		
Taxable Income	Tax Liability	Tax Liability	Change In Tax	
($)	($)	($)	($)	(%)
40,000	4,947	3,887	-1,060	-21.4
60,000	12,147	9,987	-2,160	-17.8
80,000	19,147	16,987	-2,160	-11.3
100,000	26,632	24,187	-2,445	-9.2
120,000	34,432	31,687	-2,745	-8.0
140,000	42.232	39,667	-2,565	-6.1
160,000	50,032	47,467	-2,565	-5.1
180,000	57,832	55,267	-2,565	-4.4
200,000	67,232	64,667	-2,565	-3.8

b) Changes to eligibility for small business tax concessions:

For the first time, businesses with aggregated annual turnover between $10m and $50m will have access to up to 10 small business tax concessions. This will occur over three phases:

1. From 1 July 2020, eligible businesses will be able to immediately deduct certain start-up expenses and certain pre-paid expenditure
2. From 1 April 2021, eligible businesses will be exempt from the 47 per cent fringe benefits tax (FBT) on car parking and multiple work-related portable electronic devices such as phones and laptops
3. From 1 July 2021, eligible businesses will be able to access simplified trading stock rules, remit pay as you go (PAYG) instalments based on GDP adjusted notional tax and settle excise duty and excise-equivalent customs duty monthly on eligible goods. Eligible businesses will also have a two-year amendment period apply to income tax assessments for income year starting from 1 July 2021

Further, from 1 July 2021, the Commissioner of Taxation's power to create a simplified accounting method determination for GST purposes will be expanded to apply to businesses below the $50m turnover threshold.

c) Loss carry-back provisions re-introduced on temporary basis:

The Federal Government has introduced a substantial loss carry back provision to allow eligible companies to carry back tax losses from the 2019/20 through to 2021/22 financial years to offset against previously taxed profits in 2018/19 or future income years.

Eligibility is open to all companies with aggregated turnover less than $5b which will cover approximately one quarter of South Australian businesses, but exclude non-incorporated businesses such as sole traders, partnerships and trusts.

Business SA had previously supported the reintroduction of loss carry-back rules to assist businesses with managing cash flow, which has become even more relevant since the onset of COVID-19. These rules were originally introduced under the Labor Gillard Government but repealed in the same bill as the mining tax for the 2013/14 financial year.

The recent Board of Taxation review of small business tax concessions which tabled its final report in 2019 recommended the Government: *"Re-introduce loss carry-back rules for companies that are small business entities, and allow them to carry back losses against the previous year's taxable income up to a "capped" amount."*

Currently, companies are required to carry losses forward to offset profits in future years. Companies that do not elect to carry back losses under this measure can still carry losses forward as normal.

d) Business investment allowance introduced:

A major new accelerated depreciation allowance costing $26.7b has been introduced to allow eligible businesses to fully expense the cost of any new eligible capital asset though until 30 June 2022, excluding buildings. The cost of improvements to existing eligible depreciable assets made during this period can also be fully deducted.

The temporary full expensing initiative is available to all businesses with turnover up to $5b, encompassing over 99 per cent of Australian businesses.

Businesses with aggregated turnover between $50m and $500m will still be able to deduct the full cost of eligible second-hand assets costing less than $150,000 that are purchased by 31 December 2020 under the existing enhanced instant asset write-off. Further, small businesses (with aggregated annual turnover of less than $10m) can deduct the balance of their simplified depreciation pool at the end of the income year while full expensing applies.

Investment in new capital is an important factor in increasing labour productivity. There has been a material slowdown in capital investment by businesses over the past decade. In fact, annual real growth in non-mining investment in machinery and equipment has slowed to an average of less than 0.5 per cent per annum since 2010, compared to an average of 9.5 per cent for the decade up to 2008-09[1]. The above initiative is expected to provide a once in a generation incentive for businesses to invest in plant and equipment and is well timed to enhance Australia's recovery from COVID-19.

[1]https://www.rba.gov.au/speeches/2018/pdf/sp-gov-2018-03-07.pdf

e) Proposed revisions to the R&D Tax Incentive:

Australian investment in research and development (R&D) has fallen substantially in recent years to now sit below 1.9 per cent of GDP. This is well below the OECD average of 2.4 per cent of GDP and other major economies such as Japan (3.2 per cent), Germany (3.0 per cent) and the United States (2.8 per cent)[2].

The Federal Government has proposed further amendments to the R&D tax incentive after its previously budgeted changes failed to gain full support from the Senate, largely as a result of reduced funding for the entire tax break.

For small companies, with aggregated annual turnover less than $2m, the refundable R&D tax offset is being set at 18.5 percentage points above the businesses' company tax rate, and the $4m cap on annual cash refunds previously flagged will not proceed.

For larger companies, with aggregated annual turnover above $20 million, the Government will reduce the number of intensity tiers from three to two.

The R&D premium ties the rates of the non-refundable R&D tax offset to a company's incremental R&D intensity, which is R&D expenditure as a proportion of total expenses for the year. The marginal R&D premium will be the claimant's company tax rate plus:

- 8.5 percentage points above the claimant's company tax rate for R&D expenditure between 0 per cent and 2 per cent R&D intensity for larger companies; and
- 16.5 percentage points above the claimant's company tax rate for R&D expenditure above 2 per cent R&D intensity for larger companies.

To provide additional certainty during the pandemic period, the Government will not apply these changes until 1 July 2021, noting all other aspects of the 2019/20 budgeted changes to the R&D Tax Incentive remain unchanged, including the increase to the R&D expenditure threshold from $100m to $150m per annum.

f) Fringe Benefits Tax (FBT) changes:

The law will now be changed such that reskilling an employee for a new role in a business does not attract FBT. This Budget initiative applies from 2 October 2020 but does not extend to retraining acquired by way of a salary packaging arrangement or training provided through Commonwealth supported university places. Further, the Government will consult on allowing an individual to deduct an education or training expense they incur themselves where the expense is not related to their current employment.

The Government will also provide the Commissioner of Taxation with the power to allow employers to rely on existing corporate records, rather than employee declarations and other prescribed records, to finalise their fringe benefits tax (FBT) returns. This measure will have effect from the start of the first FBT year (1 April) after the date of Royal Assent of the enabling legislation.

FBT only provides a small contribution to the overall tax take (0.85 per cent of total tax revenue in 2018-19) but represents a significant cost to business and acts as a disincentive to employment and a constraint on consumption.

While Business SA and ACCI had both lobbied strongly for FBT to be exempt from meals and entertainment expenses in order to kickstart the hospitality sector post-COVID, unfortunately this recommendation was not adopted in the 2020/21 Budget.

[2]https://data.oecd.org/rd/gross-domestic-spending-on-r-d.htm

2. JobMaker Hiring Credit Scheme

The Federal Government has introduced a new $4.5b hiring incentive to encourage employers to hire young people under the age of 35. The incentive will apply to new hires beginning on 7 October 2020 and continue through until 6 October 2021.

It provides $200 a week for 12 months for new employees aged between 16 and 30 who were previously on JobSeeker, Youth Allowance or a parenting payment for one of the previous three months. Eligible employees also need to work a minimum of 20 hours per week.

The Jobmaker Hiring Credit scheme also provides $100 a week over 12 months for eligible new employees aged between 30 and 35.

The Jobmaker Hiring Credit will be available for up to 12 months from the date the eligible employee is hired up to a maximum of $10,400 per additional position created.

Employers face a double-barrelled eligibility test to ensure the scheme is only used for genuine new hires. This means, both the payroll (in the preceding three months) and number of employees as at 30 September 2020 must be exceeded in hiring a new person to receive the JobMaker Hiring Credit.

This significant new hiring incentive is designed to offset against the declining wage support available under the JobKeeper mechanism which is being progressively wound down under JobKeeper 2.0.

3. Employment Services

The Budget includes funding for initiatives to respond to the challenges facing job seekers and employers to ensure that current and future employment services are well-positioned to deliver effective and targeted assistance to help Australians back into work as quickly as possible and to support the national economic recovery includes:

- **$17.4m over two years** to temporarily expand Relocation Assistance to Take up a Job to all job seekers participating in employment services and to those who temporarily relocate to take up agricultural work
- **$5.7m over two years** to extend NEIS eligibility to those in part time work or study, or those with caring responsibilities. Micro businesses will also gain access to small business assistance through this measure
- **$16m over three years** from 2020-21 to incentivise seasonal participation in the agricultural industry, by creating a temporary pathway for young people who are seeking to qualify as independent for the purposes of assessing Youth Allowance (student) and ABSTUDY payment eligibility
- **$6.5m over two years** from 2020-21 to provide earlier access to more intensive and tailored support to job seekers unemployed for more than six months to increase their chance of finding a job under the New Employment Services Trial (NEST)
- **$295.9m over four years** from 2020-21 (including $150.7m in capital funding) to establish a new digital employment services platform that will be available to all Australians to help them improve their skills, support proactive employer engagement and better connections to job seekers, and help job seekers match and apply for job opportunities

4. Education & Skills

As announced earlier, the Federal Government has provided $1.2b under its **Boosting Apprenticeship Commencements** (BAC) scheme to extend apprentice and trainee wage support over the next 12 months. Employers and group training organisations will be eligible for a subsidy of 50 per cent of wages for a new or recommencing apprentice or trainee for the period up until 30 September 2021, up to a maximum of $7,000 per quarter. The subsidy is also capped to the first 100,000 apprentices and trainees registered.

Employers will be eligible if:

- They engage an apprentice or trainee between October 5, 2020 and September 20, 2021; and
- Apprentice or trainee is undertaking a Certificate 2 or higher qualification and has a training contract approved by a State Training Authority

Importantly, this scheme applies to all sized employers and comes off the back of advocacy to extend the existing wage subsidy by the Australian Chamber of Commerce and Industry in its pre-Budget submission.

Note that the BAC wage subsidy is not available for any apprentice or trainee currently receiving other job subsidies including the Supporting Apprentices and Trainees wage subsidy (SAT) or JobKeeper.

The existing SAT wage subsidy was recently extended to include medium sized businesses which had an apprentice in place on 1 July 2020. Under this scheme, eligible employers can apply for a wage subsidy of 50 per cent of an eligible apprentice or trainee's wages until 31 March 2021.

The March 2020 National Centre for Vocational Education Research (NCVER) data estimates South Australian apprentice and trainee numbers were 18,180, a 9.9 per cent increase from the same time last year. While this is a positive result, it does not yet reflect any impact of COVID-19.

The South Australian Government is currently reforming our vocational education and training system to better support the delivery of initiatives such as the $200m Skilling South Australia program and recently announced $88m JobTrainer package. This scheme should also increase the number of apprenticeship and trainee positions in South Australia.

The Budget provides $903.5m over four years from 2020-21 to provide more places and support for people wanting to access higher education due to the impact of COVID-19, to establish new quality protections for the higher education system, and for the Job-ready Graduates reforms.

Businesses will benefit from the **University's** innovative short courses funding launched in July and extended to help retrain those who lost or had their jobs changed due to COVID-19. The Budget has supplied $252m over the next two years subsidising a further 50,000 short courses in areas of job demand including teaching, health, information technology, science and agriculture. This is on top of the 20,000 six-month courses set to be delivered this year by universities and independent higher education providers.

Universities have been promised 12,000 new places in priority areas and an extra $1bn for research which will benefit business. Over four years the **Strategic University Reform Fund** will encourage strong links between higher education institutions, business and industries in key regional communities – enhancing collaboration between universities and local employers and improving commercialisation of applied research. This builds on industry linkage pilot projects such as the **Flinders University Naval Shipbuilding Enterprise**.

University of Adelaide will receive $20m over four years to establish the Centre for Augmented Reasoning. The Centre will develop machine-learning technologies capable of using Australia's large volume of data to improve the application of these technologies across a wide range of industries and areas. The Centre will directly create 30 new positions in South Australia. Prospective students will be offered attractive four-year scholarships at $40,000 pa to complete a PhD, with a focus on the representation of women.

5. Infrastructure

The Federal Government has committed an additional $10b in funding over the next four years bringing the commitments for new and accelerated projects since the start of the pandemic to $14b across the forward estimates. Some of the key funding announcements from the Budget consist of:

- $7.5b for transport infrastructure across the country
- Funding for "shovel-ready projects" including $2b for road safety initiatives and $1b for the Local Roads and Community Infrastructure Program
- An additional $4.5b investment in NBN Co
- An investment of $2b for new projects under the National Water Infrastructure Development Fund

This establishes a total infrastructure pipeline of over $110b over ten years.

Of the new $7.5b of infrastructure funding, South Australia will receive $625m, or 8.3 per cent of national funding down from an 11.5 per cent infrastructure funding allocation in last year's Federal Budget.

The $625 million South Australian roads package specifically includes:

- $200m for the Hahndorf Township Improvements and Access Upgrade
- $136m for the Princes Highway Corridor — intersection improvements, overtaking lanes, pavement works, rest areas, safety and signage improvements and shoulder sealing
- $136m for the Main South Road Duplication Stage 2 — Aldinga to Sellicks Beach
- $100m for the Strzelecki Track Upgrade
- $28m for the South Eastern Freeway Safety Upgrade
- $13.2m for the Goodwood and Torrens Rail Junctions
- $12m for the Victor Harbor Road Upgrade

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

Business SA welcomes the above announcements, particularly the $100m to seal priority sections of the Strzelecki Track which follows a State Government 19/20 Budget measure to spend $10m sealing the first 50km of the 472km track. However, sealing the entire track is a circa $450m project and accordingly, a material

State and Federal Government funding allocation is still required to complete the key route which supports the mining, gas and livestock sectors.

Moreover, Business SA had called for the duplication of the Dukes and Augusta highways and an East-West link across Adelaide in our recently released 9-Point Plan to Skyrocket SA. Subsequently, we were disappointed not to see funding for any of these game-changing projects.

6. Manufacturing Modernisation Strategy

As per its recent announcement, the Federal Government has committed $1.5b over five years to promote growth in Australia's manufacturing sector through a Manufacturing Modernisation Strategy (MMS). The strategy will focus on six key areas of advantage and strategic importance labelled the National Manufacturing Priorities:

- Resources Technology & Critical Minerals Processing
- Food & Beverage
- Medical Products
- Recycling & Clean Energy
- Defence
- Space

At the core of this strategy is increasing productivity and scale to reduce costs and increase the competitiveness of Australian manufacturing. Importantly South Australia is in a good position to leverage off the strategy with all six priorities playing into South Australia's competitive advantages.

To help achieve modernisation the Federal Government has brought together number of other measures in this Budget that will help drive business investment and confidence.

Modern Manufacturing Initiative

The key pillar of the MMS is the Modern Manufacturing Initiative (MMI) which will provide $1.3b over five years from 2020-21. The MMI will deliver co-funding to large manufacturers that further the outlined National Manufacturing priorities. The MMI aims to release additional private sector investment with Federal assistance through three targeted streams.

- Manufacturing Collaboration Stream
- Manufacturing Translation Stream
- Manufacturing Integration Stream

All streams will operate on a co-investment basis ranging from 33 per cent to 50 per cent of project costs. Eligible applicants will be confined to trading corporations. There will be no specific business size requirements. Funding will be focused on supporting businesses to scale.

Eligibility criteria and invitations for expressions of interest will open in the first half of 2021.

Manufacturing Modernisation Fund

The Federal Government is committing to a $52.8m investment over three years in a second round of the Manufacturing Modernisation Fund (MMF). It aims to support 150 firms that align with the outlined National Manufacturing Priorities.

The MMF round two aims to address barriers to growth and innovation.

The program will offer:

- Large-scale grants of $100,000 to $1m on a 3-to-1 funding basis
- Support for transformative investments in technologies and processes

The Federal Government is hoping to build on the success of the $48.3m round one of the MMF. Round one supported around 200 projects valued at more than $215m. These projects are expected to create around 2,600 new jobs.

Supply Chain Resilience Initiative

There is an additional $107.2m over four years for a Supply Chain Resilience Initiative to understanding the Australian supply chain and to resolve vulnerabilities identified which have been brought to light by COVID-19. From 1 July 2021, businesses can access support to establish or scale a capability that addresses a supply chain vulnerability.

To be eligible for funding, projects will need to:

- Demonstrate they address a supply chain vulnerability for a critical product or input identified in a Sovereign Manufacturing Capability Plan; and
- Result in measurable strengthening of the supply chain

Guidelines outlining eligibility and merit criteria will be made available in the first half of 2021.

Additional manufacturing sector funding

$30.0m over two years from 2020-21 to the Advanced Manufacturing Growth Centre to continue to support projects, in consultation with other Industry Growth Centres, to build the capability and competitiveness of the manufacturing sector in alignment with the National Manufacturing Priorities.

$20.0m in 2021-22 to Industry Growth Centres, including the Advanced Manufacturing Growth Centre, Food Innovation Australia, METS Ignited and MTPConnect in support of the Modern Manufacturing Strategy.

There will also be $5.0m allocated in 2020-21 to establish an Advanced Manufacturing Facility in South Australia to facilitate the manufacturing and assembly of electric vehicles.

7. Trade

As announced in September 2020, the Government has advised it will support and simplify the **Export Market Development Grants Scheme** to more effectively support export ready small and medium enterprises. Funding of $157m annually will be available over forward estimates.

The Government will provide $328.4m over four years from 2020-21 for a package of measures to improve the ease of doing business for **agricultural exporters.**

This includes:

- **$222.2m over four years** (and $22.3m ongoing) for the first phase of modernising the ICT systems and business processes that support the improved delivery of export regulatory services to agricultural exporters
- **$71.1m over three years** from 2020-21 to improve the financial sustainability of export certification services by returning to full cost recovery of these services over time, while minimising the impost on industry as it recovers from the effects of the drought, bushfires and COVID 19
- **$35.2m over four years** for targeted interventions and regulatory reforms in the meat, live animal, seafood, plant and plant product export sectors to get products to overseas markets faster and more reliably

The Government will invest $28.6m to support initiatives to **simplify and modernise Australia's trade system** and streamline border services, to reduce administrative complexity and improve the efficiency of international trade.

The Budget provides $317.12m to extend the **International Freight Assistance Mechanism** until mid-2021 assisting valuable exports from Australia, especially agricultural products and the import of medical supplies.

$9.6m will be provided over four years from 2020-21 to assist fintech start-ups to gain a foot hold in foreign markets, support measures to encourage job creation and attract **foreign investment**.

8. Migration

Net national overseas migration is forecasted to fall from around 154,000 people in 2019-20 to around -72,000 people by the end of 2020-21, before gradually increasing to around 201,000 persons in 2023-24. As a result, population growth is forecast to decline to its lowest rate in over a century to 0.2 per cent in 2020-21 before a slight rise to 0.4 per cent in 2021-22.

South Australia has the lowest population growth in the country and since 2014, more than half of South Australia's population growth has occurred through overseas migration.

As announced in September 2020, the Federal Government has committed $29.8 million over two years from 2020-21 for the **JobMaker Plan** to establish a new whole-of-government Global Business and Talent Attraction Taskforce to attract international businesses and exceptional talent to Australia. This initiative builds on the existing Global Talent Initiative and Business Innovation and Investment Program, and the new initiative to attract export-orientated Hong Kong-based businesses to Australia.

Refunds and waivers of visa application charges have been provided to temporary visa holders affected by the COVID-19 travel ban. Fee receipts are estimated to be down $275 million over the forward estimates as a result of this measure.

The Government will maintain the 2020-21 **Migration Program** planning level at 160,000. Family stream places will increase to 77,300 (from 47,732) on a one-off basis and the skilled stream priorities will focus on Employer Sponsored, Global Talent and Business Innovation and Investment Program visas.

The increased number of partner visas and prioritisation of on shore migrants is expected to cost $320 million, while increased demand by Partner migrants for English language services is expected to cost an additional $123.1m.

Visa charges for the Business Innovation and Investment Program (BIIP) will increase by 11.3 per cent along side changes to improve the quality of investments and applicants.

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9. Energy & Environment

The Federal Government will provide $1.9b over twelve years from 2020-21 (including $628.5m over four years to 2023-24) to continue funding the Australian Renewable Energy Agency (ARENA), expand the investment mandate of the Clean Energy Finance Corporation (CEFC), and invest in low emissions technologies, network infrastructure, dispatchable generation and reliable supplies in the National Electricity Market (NEM).

This package includes a range of small to medium sized initiatives to support energy productivity and low emissions technologies including:

- $95.4m over six years to create a co-investment fund that supports industrial, freight and agricultural businesses to identify and adopt technologies to reduce emissions and increase productivity; and
- $74.5m over four years from 2020-21 to create the Future Fuels Fund, which would enable businesses to integrate new vehicle technologies, perform integration analysis and develop improved information on electric vehicles and charging infrastructure

The Government will also invest an additional $249.6m over four years to modernise recycling infrastructure, reduce waste and recycle more within Australia. This includes $190m for a new Recycling Modernisation Fund that is forecast to drive $600m of investment in new infrastructure to sort, process and remanufacture waste.

In terms of overall Budget support, fiscal support for energy and environment measures was relatively modest but aligned with the Federal Government's aim for sectors including renewable energy to be less reliant on subsidies.

10. Workplace Relations

New or additional funding announcements for workplace relations are limited and were largely as anticipated.

The **Fair Work Commission** will receive an additional $5.1m over two years to respond to an increase in its workload as a result of COVID-19. It is anticipated that there will be changes to key awards in industries most impacted by COVID-19. Further announcements will be made in coming weeks in the lead to up the introduction of a package of amendments to the Fair Work Act 2009 during the 2020 parliamentary year.

The **Fair Work Ombudsman** will receive $46.3m over three years (from 2019-20) to enhance its advice and education services for businesses and employees on compliance with workplace laws (including awards, minimum wages and national employment standards).

The Attorney-General's Department will receive an additional $35.3m over two years to fund additional demands on the **Fair Entitlements Guarantee** (FEG) program. FEG applies when bankruptcy or liquidation sees employers unable to fund employee entitlements such as unpaid wages, leave, pay in lieu of notice and redundancy pay.

As part of its **'Second Women's Economic Security Package'** the Government will allocate a $50 million **Women@Work** Plan to address barriers to participation including $2.1m over three years from 2020-21 to establish a **Respect@Work** Council to assist in addressing sexual harassment in Australian workplaces and $35.9m to provide women entrepreneurs with access to expert mentoring and business advice.

The Government will also allocate $90.3m over three years from 2020-21 to relax the work test arrangements for **Paid Parental Leave**, for births and adoptions, in response to COVID-19. The work tests for parental and adoption leave occurring between 22 March 2020 and 31 March 2021 to be relaxed to allow parents to qualify for the payment if they have worked 10 of the last 20 months, instead of the current 10 of the last 13 months, preceding the birth or adoption of a child.

11. Superannuation

The Government will provide $159.6m over four years from 2020-21 to implement reforms to superannuation to improve outcomes for superannuation fund members. The reforms, which will reduce the number of duplicate accounts held by employees as a result of changes in employment and prevent new members joining underperforming funds, include:

- Australian Taxation Office systems enabling new employees to select a superannuation product from a table of MySuper products through the YourSuper portal
- An existing superannuation account will be 'stapled' to a member to avoid the creation of a new account when that person changes their employment
- From July 2021, the Australian Prudential Regulation Authority will conduct benchmarking tests on the net investment performance of MySuper products. Products that have

underperformed over two consecutive annual tests will be prohibited from receiving new members until a further annual test that shows they are no longer underperforming

- Obligations on superannuation trustees will be strengthened to ensure members' retirement savings are being maximised

12. Regions

The Federal Government has provided $552.9m over four years from 2020-21 (and $16.6m in 2024-25 and $16.1m per year ongoing) for a package of measures to support regional Australia to recover from the impacts of COVID-19 and recent natural disasters, and to support long term economic growth. Key initiatives include:

- **$208m over five years** from 2020-21 (including $0.5m in 2024-25) for round five of the Building Better Regions Fund to support investment in community infrastructure and capacity building projects in regional areas, including $100m for tourism-related infrastructure projects
- **$100m over two years** from 2020-21 to facilitate Regional Recovery Partnerships with states, territories and local governments to support recovery and growth in 10 priority investment regions
- **$51m over two years** from 2020-21 to assist regions heavily reliant on international tourism by stimulating tourism business recovery and tourism job retention and creation in regional Australia. Funding will support tourism businesses to grow their markets and diversify into new products until the international tourism market recovers
- **$0.2m in 2020-21** to support the installation of mobile phone infrastructure to cover mobile and digital black spots for Cherry Gardens in South Australia, a high-risk bushfire area.

The Federal Government has also announced $129.9m in additional regional specific funding under the Relief and Recovery Fund to support regions and industry sectors disproportionately affected by COVID-19.

Aside from the above, there were no new major funding initiatives for Regional Australia.

13. Construction Sector

The Federal Government has announced an additional 10,000 first home buyers will be able to purchase a new home sooner under its First Home Loan Deposit Scheme. This scheme has already helped 20,000 home buyers across Australia with being able to purchase a new home with as little as a 5 per cent upfront deposit with the Government providing guaranteeing 15 per cent of the loan.

The Government has also introduced a capital gains tax (CGT) exemption for granny flat arrangements where a formal written agreement is in place. Under this measure, CGT will not apply to the creation, variation or termination of a formal written granny flat arrangement providing accommodation for older Australians or people with disabilities. Note, this exemption will only be for agreements between family members or others with close personal ties and does not apply to commercial rental agreements.

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