2021 FEDERAL BUDGET REPORT

IDEAS | PEOPLE | TRUST

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INTRODUCTION

"The Australian economy is well on its way to recovery." - **JOSH FRYDENBERG**

If the economy was a final destination in an orienteering race, the impact of the past 12-15 months has placed significant cliffs and gullies on the trail towards the 'economic recovery' finish line.

While the terrain we've traversed so far has been tough and challenging, the Australian economy has fared much better than most around the globe. The previous Federal Budget in October 2020, the fiscal measures to manage the workforce and to encourage spending, as well as the successful health management of COVID-19, have all contributed to our current strong position.

In Josh Frydenberg's third Federal Budget, the map has been updated with further way-finders to continue the climb to recovery for our economy.

A summary of the key announcements include tax relief for low and middle income earners as well as for small to medium businesses. In particular, small brewers and distillers will receive welcomed relief in full excise refunds. Superannuation changes and continuations will help women maximise their retirement savings, and there was a clear focus on keeping women in the workforce by boosting childcare. In addition, attracting global talent to Australia with changes to tax rules, will help capitalise on the enviable position we have found ourselves in globally.

A surprise announcement in this budget was the Patent Box Regime which is set to boost innovation – particularly in medical and biotechnology.

The main announcements mostly involved new spending to prime the economy and to prioritise what the Morrison Government sees as key areas such as aged care, family, domestic violence prevention and child care.

While the pace of this part of our course is not a 'sprint and chase', it's safe to say the economic compass provided by this budget will deliver solid bearings, and a course correction to guide us through the next part of this much longer race. Additionally, we are sure the Government hopes this budget provides a solid first leg in the journey towards the next federal election, due before May 2022. While we will, no doubt, have some hills and valleys to traverse along the way, the trail to recovery appears to be well within our sights.

THE BIG PICTURE

NEXT STEPS FOLLOWING THE ROYAL COMMISSION INTO AGED CARE QUALITY AND SAFETY

The Government has announced its response to the Royal Commission into Aged Care quality and safety and the availability of aged care services, providing a $17.7 billion whole-of-government response across the following sectors:

- Governance and regional access
- Homecare
- Residential aged care quality and safety
- Residential aged care services and sustainability
- Workforce.

GOVERNANCE AND REGIONAL ACCESS

The Government will provide $698.3 million over five years from 2020-21, with the aim of funding governance and regional access to the quality of aged care services for:

- Consumers in regional, rural and remote areas
- Replacement of both the *Aged Care Act 1997* and the *Aged Care Quality and Safety Commission Act 2018*
- Establishment of the National Aged Care Advisory Council to keep the Government informed on the aged care sector.

HOME CARE

The Government will provide $7.5 billion over five years from 2020-21 for home care services. This funding announcement will support:

- The release of 80,000 additional home care packages over two years from 2021-2022
- Greater access to respite care services and payments to support carers
- The continued operation of My Aged Care
- The needs of senior Australians, including access to information about aged care and the flexibility to design and plan a new home care program.

RESIDENTIAL AGED CARE QUALITY AND SAFETY

The Government will provide $942 million over four years from 2021-22 to residential aged care quality and safety as a way to improve access to primary care and other health services in residential aged care. Key improvements to these new payment measures include:

- Additional investment in digital and face-to-face assistance for ease of navigating the aged care system
- Addressing failures in care and extending support to manage and prevent COVID-19 outbreaks
- Strengthening of regulations including the reduction of chemical and physical restraints within the Dementia Behaviour Management Advisory Service and Severe Behaviour Response Teams.

RESIDENTIAL AGED CARE SERVICES AND SUSTAINABILITY

The Government will provide $7.8 billion over five years from 2020-21 with an outlook of improving sustainability of residential aged care services. Key funding from the Budget includes:

- Increased front line care delivered to 240,000 aged care residents, and 67,000 who access respite services, by 1 October 2023
- Continuation of temporary financial support and the Viability Fund to further support residential aged care providers
- Implementation of the Australian National Aged Care Classification (AN-ACC).

WORKFORCE

The Government will provide $652.1 million over four years from 2021-22 as a catalyst for change in respect of aged care and the workforce to:

- Grow and upskill the workforce, including enhancing nurse leadership and clinical skills, providing dementia and palliative care training for aged care workers and recruit aged care workers in more regional and rural areas
- Introduce nationally consistent worker screening, register and code-of-conduct for all care sector workers
- Support the training of 13,000 new home care workers
- Extend the Care and Support Workforce national campaign.

BDO COMMENT

BDO supports the much needed aged care initiatives addressing the gaps in an under resourced aged care system that is struggling to support the needs of our aging population. These measures will also assist with increasing the aged care workforce, with consequent improvements in the unemployment rate.

OTHER FUNDING – INDUSTRY, SCIENCE, ENERGY AND RESOURCES

The Government has announced over $1.2 billion over the next three years for a number of initiatives in the Industry, Science, Energy and Resources portfolio.

VACCINE DEVELOPMENT

- Funding for the Department of Industry, Science, Energy and Resources and the Department of Health to develop onshore mRNA vaccine manufacturing capabilities in Australia, including to work with the Australian market towards achieving sovereign capability.

RESOURCES AND ENERGY

- $58.6 million over four years to support key gas infrastructure projects, unlock new gas supply and empower gas customers. This includes $38.7 million to help alleviate potential gas shortfalls on Australia's east coast
- $116.7 million over four years and $14.2 million per year ongoing to support the Australian Nuclear Science and Technology Organisation
- $20.1 million over two years to deliver a Global Resources Strategy to support diversification of Australia's resource export markets
- $215.4 million over six years to support investment in Australia's energy affordability and reliability, including $24.9 million over three years to support the development of hydrogen ready gas generation infrastructure (with $8.7 million to be funded by reprioritising existing resources)
- Building on the 2020-21 Budget Measure *(JobMaker Plan – securing Australia's liquid fuel stocks)* funding will be committed over a nine year period in an effort to maintain Australia's refining capacity, thereby working to enhance national fuel security. Funding will include $50.7 million for implementation and administration of the minimum stockholding obligation and broader framework, and will also see to the introduction of a production payment for domestic refiners (funding amounts are not for publication due to commercial sensitivities)
- Funding over 11 years to conduct rehabilitation works at the former Rum Jungle mine site near Batchelor, Northern Territory
- An additional $15.7 million over three years to support strategic basin plans. This includes $15.7 million to support gas industry field appraisal trials and $2.2 million to facilitate land use agreements and drive economic opportunities in the Beetaloo sub basin. This measure is being partially funding through the reprioritisation of existing funding from the 2020-21 Budget *(Accelerating New Gas Supply to Market – Strategic Basin Plans*).

EMISSIONS REDUCTION

Following on from the 2020-2021 Budget, the Federal Government is continuing with its commitment to invest heavily into new and emerging technologies focused on emissions reduction as part of its Technology Investment Roadmap and Low Emissions Technology Statements.

The Government has announced it will provide $1.6 billion over ten years from 2021-2022 across various initiatives to incentivise private investment in low emissions technologies, grow new export industries and create jobs.

SPACE

- $13.3 million over four years to the Australian Space Agency to further support the growth of the industry and remove regulatory burden from the private sector
- $387.2 million over ten years to co-host the Square Kilometre Array (SKA) Observatory. This funding includes Australia's share of the telescope, the establishment of the Australian SKA Regional Centre, purchasing of land to accommodate part of the telescope, and provision of communication services to the area surrounding the Australian SKA site.

MISCELLANEOUS

- $189.6 million over five years for the Next Five Year Plan for Northern Australia to stimulate economic recovery and create jobs across northern Australia. This includes $111.9 million to establish a Northern Australia Development Program to support the scale-up of commercial projects, $68.5 million to deliver targeted digital connectivity solutions, and $9.3 million to provide on-ground resources focusing on investment, job creation and business growth
- $2.6 million over four years to support and strengthen Australian business participation in Commonwealth procurement. This includes the mandated use of Dynamic Sourcing for Panels, targeted Government Procurement Learning Events, increased communication of opportunities, and a pilot of direct engagement of SMEs by the Department of Industry, Science, Energy and Resources for contracts up to $200,000
- $1 million over two years to support the growth of the Australian fashion industry through promoting demand creation and increased recognition of the innovation and design capabilities of the Australian fashion industry
- $5 million over four years to simplify Australia's anti-dumping regime for businesses
- $2.4 million over three years to support the Kimba community under the National Radioactive Waste Management Facility program
- Consolidation of international science funding programs, saving $6.6 million over five years and $500,000 per year ongoing.

BDO COMMENT

BDO welcomes the additional funding under the Industry, Science, Energy and Resources portfolio and the additional funding for Regional Australia. We would, however, prefer to see funding distributed more broadly across the portfolio to reach more sectors than just the resources and energy industry.

JOBTRAINER AND HOUSING

The Government has announced substantial expenditure on two significant programs in a bid to continue Australia's recovery from the COVID-19 pandemic - $506 million pledged towards the continued functioning of the JobTrainer Fund, and over $782 million to expand the operation of the HomeBuilder Grant.

JOBTRAINER

The JobTrainer Fund was initially established as an investment measure to combat the employment issues arising from the COVID-19 pandemic. It operates on a state-by-state basis, with a goal to upskill younger, under-employed members of the workforce. $506 million will be spent over two years from 2021-22 to provide 163,000 training places in industries of critical importance. In particular, aged care and digital skills will be prioritised, in alignment with the budget's emphasis on these industries.

To fulfil eligibility requirements, applicants must not be older than 24, and must also be unemployed or receiving income support payments. Additionally, the announcements outline eligibility will be expanded to include employed individuals in industries most heavily impacted by COVID-19.

HOMEBUILDER

The HomeBuilder Grant has been a popular measure since its announcement in 2020, with over 120,000 applications made before its initial closing deadline of 14 April 2021. The Grant is designed to support the residential construction industry, and provide a more accessible avenue for home ownership in Australia. The Treasurer has announced the reopening of this Grant, supported by $774 million of funding over two years. The construction commencement requirement has been extended from six months to 18 months, which will widen the number of eligible applicants.

Additionally, the expansion of the Family Home Guarantee will provide 10,000 further places to allow single parents with dependants to enter the housing market. This program will allow eligible parties to access deposits as low as 2%. Also, expansion of the New Home Guarantees program will allow 10,000 eligible first home buyers to either build new homes, or purchase newly constructed homes with deposits as low as 5%.

BDO COMMENT

BDO supports these measures. The HomeBuilder Grant has been one of the most successful and popular initiatives in recent times, and provides more Australians with the opportunity to enter a booming property market. Its expansion will continue to aid the recovery of the residential construction industry.

The education and up-skilling of younger members of the workforce has been touted as a priority by the Government, and the continued support of the JobTrainer Fund will provide the means to this end. The particular focus on providing training places in both aged care and digital industries aligns with the other budgetary objectives outlined in this year's announcements.

ADDITIONAL FUNDING FOR THE JOBMAKER INFRASTRUCTURE INVESTMENT PLAN

The Federal Government has committed a further $15.2 billion in additional infrastructure funding across the country as part of its ongoing $110 billion, ten year JobMaker Infrastructure Investment Plan. The funding will support key infrastructure projects with a focus on improving roads and freight networks. It is estimated the increased investment in infrastructure will create 30,000 jobs across every State and Territory.

STATE AND TERRITORY MEASURES

Queensland

The Government will commit a further $1.6 billion to prioritising regional and urban road and rail infrastructure projects in Queensland. The additional funding will be allocated to key projects such as:

- $400 million in additional funding for the Bruce Highway
- $400 million for the Inland Freight Route (Mungindi to Charters Towers)
- $240 million for the Cairns Western Arterial Road Duplication.

New South Wales

New South Wales will receive an additional $3.3 billion in funding from the Government. This additional spending will help fund key projects including:

- $2 billion for the Great Western Highway Upgrade – Katoomba to Lithgow
- $500 million for the Princess Highway Corridor
- $240 million for the Mount Ousley Interchange.

Australian Capital Territory

The Government will provide a further $167.3 million for key projects in the Australian Capital Territory including:

- $132 million for the Canberra Light Rail – Stage 2A
- $26.5 million for the William Hovell Drive Duplication.

Northern Territory

The Northern Territory will receive an additional $323 million in funding for priority road and rail projects. Key projects as part of the additional funding include:

- $173 million for Northern Territory Gas Industry Roads Upgrades
- $150 million for the Northern Territory National Network Highway Upgrades.

South Australia

South Australia will benefit from an additional $3.2 billion in funding bringing the Government's total commitment to over $10.7 billion. The increased spending on major infrastructure will include:

- $2.6 billion for the North-South Corridor – Darling to Anzac Highway
- $161 million for the Truro Bypass.

Western Australia

The Government will provide an additional $1.3 billion in road and rail funding. The additional funding will focus on key projects such as:

- $237 million for the METRONET
- $200 million for the Great Eastern Highway Upgrades
- $160 million for the WA Agricultural Supply Chain Improvement.

Victoria

The Government will allocate a further $3 billion in funding for a variety of road and rail projects in Victoria. Spending on major infrastructure upgrades will include:

- $2 billion for the Melbourne Intermodal Terminal
- $380 million for the Pakenham Roads Upgrade
- $250 million for the Monash Roads Upgrade.

Tasmania

The Government will provide an additional $322.6 million in funding for priority road projects in Tasmania including:

- $113.4 million for the Midland Highway Upgrades, including Campbell Town North and Oatlands
- $80 million for the Tasmania Roads Package.

BDO COMMENT

BDO welcomes the Government's increased commitment to infrastructure projects across the country. The increase in funding will help assist in supporting the economic recovery and drive jobs growth in the construction sector. This will provide flow-on economic benefits to a number of struggling Australian industries such as the tourism and transportation sectors.

CHILD CARE SUBSIDY

Included in the Women's Economic Security Package are changes to the Child Care Subsidy (CCS) – the aim of which is to improve women's workforce participation and economic security. These changes will come into effect on 1 July 2022. But be warned, the changes don't apply to everyone.

CCS CHANGES

Families will keep more money in their pocket with the CCS rate increasing by 30% for children five years and under. However, these changes only apply to a family's second and subsequent children, meaning single children families will miss out. The CCS increase is capped at a maximum of 95%.

The $1.7 billion dollars' worth of funding over five years will also abolish the $10,560 annual subsidy cap for high income earners. It is hoped the removal of the subsidy cap for high income families will encourage both parents back into full time work.

BDO COMMENT

BDO welcomes the changes aimed to support women in the workforce. However, with the start date more than 12 months away, little relief will be gained in the short term.

DIGITAL ECONOMY STRATEGY

The Government has introduced a $1.2 billion Digital Economy Strategy aimed at taking advantage of the accelerated digital transformation resulting from COVID-19. As part of this strategy, it has introduced a 30% refundable Digital Games Tax Offset to make Australia an attractive destination for digital talent.

DIGITAL GAMES TAX OFFSET

From 1 July 2022, eligible entities spending a minimum of $500,000 on qualifying Australian games expenditure, will receive a 30% refundable tax offset, capped at $20 million per year. Consultation with industry in mid-2021 will inform the criteria and definition of qualifying expenditure to support the development of digital games.

OTHER DIGITAL PRIORITIES

The Government's Digital Economy Strategy also includes additional support for the following areas:

- Improving digital infrastructure and skills: Recognising the need for specialist skills in emerging fields such as artificial intelligence, robotics and quantum computing
- Artificial Intelligence (AI) capability: The Government will create a National AI Centre and Digital Capability Centres to drive and support small and medium enterprises to adopt and use transformative artificial intelligence technologies
- Emerging aviation technologies: Establishing the Emerging Aviation Technology Partnerships program will allow the Government to support the use of emerging aviation technologies, benefitting regional economies and communities. Additionally, the New Drone Rule Management System will support the automated management of Commonwealth and state drone regulations.

BDO COMMENT

The Digital Games Tax Offset will be very beneficial for many Australian gaming entities, but it is important entities carefully assess the interactions with other schemes, such as the R&D Tax Incentive, and how this will affect their ultimate tax position.

BDO is pleased the Government has increased its support of Australia's digital economy without heeding the call from some in the tech sector to fast track a specialised software incentive. BDO believes the sector can be appropriately accommodated under the existing Research and Development Tax Incentive regime if it is properly administered, with specialised schemes like the Digital Games Tax Offset, a bonus, where required.

VICTIMS OF FAMILY AND DOMESTIC VIOLENCE

The Government will provide funding from 1 July 2021 for initiatives to reduce and support the victims of Family, Domestic and Sexual Violence (FDSV) against women and children. Further, the Government announced it will not proceed with a measure to extend early release of superannuation to victims of family and domestic violence.

EARLY SUPERANNUATION RELEASE FOR VICTIMS OF FAMILY AND DOMESTIC VIOLENCE

The Government's previous measure, announced in an attempt to help victims of family and domestic violence, allowed women to withdraw up to $10,000 from their superannuation accounts. In this Budget, the Government has announced it will not proceed with the measure to extend early release of superannuation to victims of family and domestic violence.

WOMEN'S SAFETY

As part of the National Plan currently being developed, the Government has announced it will provide $998.1 million over four years from 2021-22, plus $2.3 million in 2025-26, for initiatives to reduce and support the victims of FDSV.

Programs and initiatives that directly support women and children who are victims of FDSV

Funding of $507.3 million over four years from 2021-22 will be provided to implement and enhance a range of programs and initiatives directly supporting women and children who have been subjected to FDSV.

Programs for prevention of FDSV and education

Funding of $92.4 million will be provided over four years to support programs aimed at the prevention of FDSV, to support education on consent and respectful relationships and to improve training outcomes for those who may encounter FDSV.

Support services

Funding of $320.1 million over four years will be provided to further support services assisting vulnerable women and children to engage with the legal system, increase access to Children's Contact Services and support the development of improvements in the legal system in dealing with FDSV.

Improvement of data collection

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

BDO COMMENT

In light of recent allegations of the poor treatment of women in Federal Parliament and more generally, it was no surprise the Government announced significant spending to tackle this issue. This in no way takes away from the fact these spending measures are very welcome. We consider these measures are a great start in helping to protect the vulnerable.

We support the removal of the proposal to allow domestic violence victims to access their superannuation funds early. We believe this proposal had the potential to further disadvantage women, as those escaping domestic violence situations should not have to use their own funds to do so.

BUSINESS

TEMPORARY FULL EXPENSING EXTENSION

The Government has announced a 12 month extension to the temporary full expensing measures until 30 June 2023. These measures initially announced as part of the previous budget, provide eligible businesses with an immediate deduction for the full cost of depreciating assets.

Under the current law, eligible businesses with aggregated turnover of less than $5 billion are entitled to an immediate deduction for the cost of depreciating assets purchased after 7:30pm AEDT on 6 October 2020, and first used or installed ready for use by 30 June 2022.

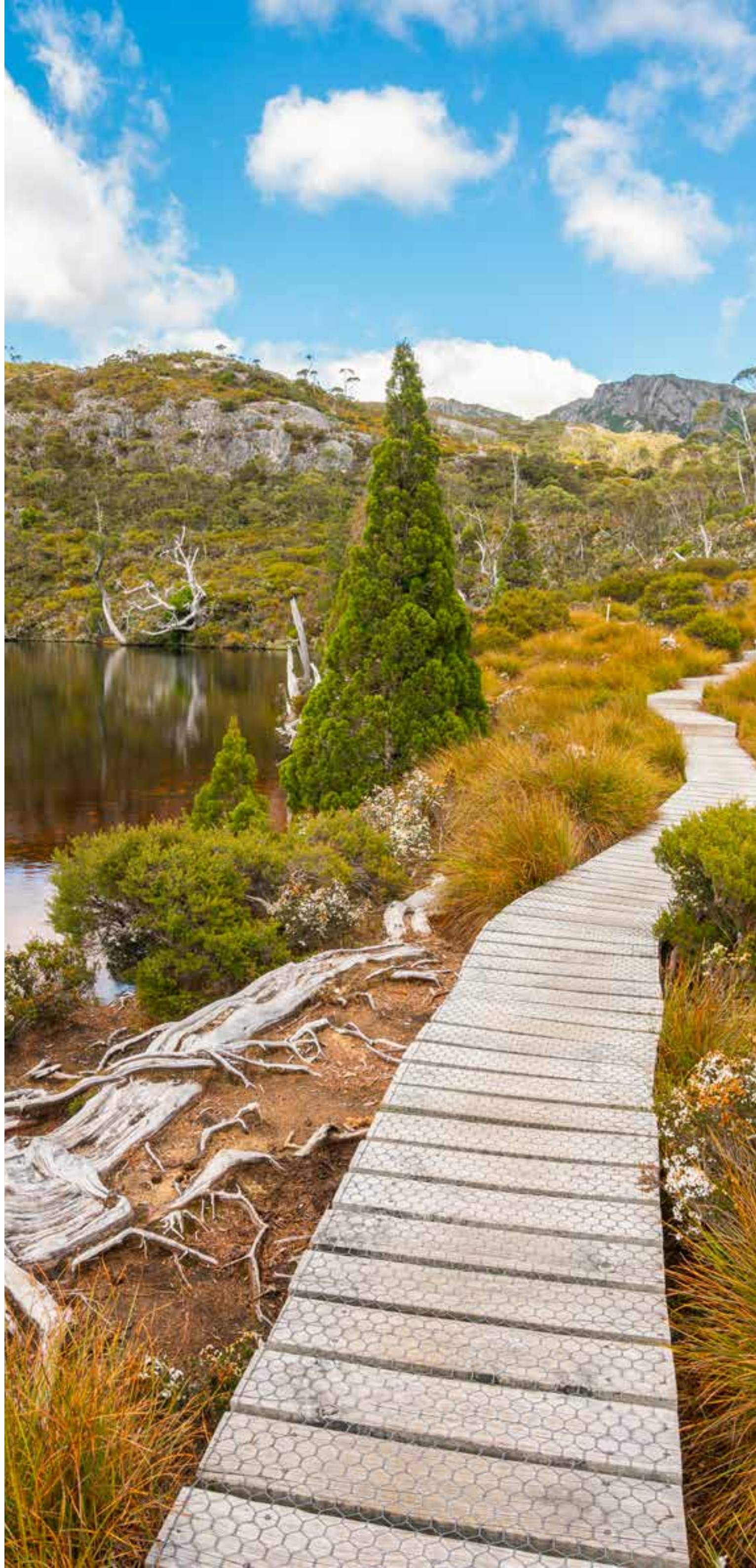
For those entities with aggregated turnover exceeding $5 billion, they may also be entitled to an immediate deduction under the 'alternative test'. The 'alternative test' requires Australian income of less than $5 billion, and the cost of depreciating assets for the 2017, 2018 and 2019 income years to exceed $100 million.

The proposed measure extends the immediate deduction for a further 12 months to apply to assets that have been first used or installed ready for use by 30 June 2023.

BDO COMMENT

We welcome the extension of this very generous concession by the Government. As Australia recovers from the economic impacts of COVID-19, it will be critical businesses can continue to invest in capital assets to ensure a smooth economic recovery.

However, the continued use of the aggregated turnover definition in the legislation adds complexity to the eligibility requirements. Particularly for those entities with foreign parents, it will be critical that all connected entities and affiliates are appropriately identified in order to assess the eligibility for the write-off. For entities with aggregated turnover exceeding $5 billion, all may not be lost as they may still be eligible under the 'alternative test'. The requirements of such a test should be carefully considered by businesses.



EXTENSION OF THE LOSS CARRY BACK RULES FOR COMPANIES

The Government has announced an extension to the temporary loss carry-back rules announced in the 2020 Federal Budget. This extension will allow eligible companies to carry back and use tax losses from the 2022-23 income year to offset tax paid on profits from the 2019 and subsequent income years. This refund of tax paid in previous income years when a loss is incurred in a later year is described as a 'loss carry-back'.

Currently, companies with an aggregated turnover of less than $5 billion may only carry-back losses incurred in the 2020-2022 income years to the 2019 income year onwards. Companies that do not elect to use the loss carry-back rules will continue to carry forward losses as normal. The extension of the loss carry-back provisions will provide further support to companies for an additional year.

The following limitations will continue to apply with respect to the loss carry-back measure:

- Losses carried back cannot be more than the earlier taxed profits
- The loss carry-back amount must not generate a franking account deficit.

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

BDO COMMENT

BDO is pleased the Government has chosen to extend this measure providing much needed support to companies experiencing a delayed downturn from the COVID-19 pandemic. This should also allow companies to better use the extended temporary full expensing measures which the Government announced as part of the 2021 Federal Budget.

PATENT BOX REGIME

A patent box tax regime will be introduced as a tax concession for Australian medical and biotechnology innovations. The introduction of patent box regimes in other countries (e.g. UK) has led to companies keeping and commercialising the intellectual property (IP) in that country.

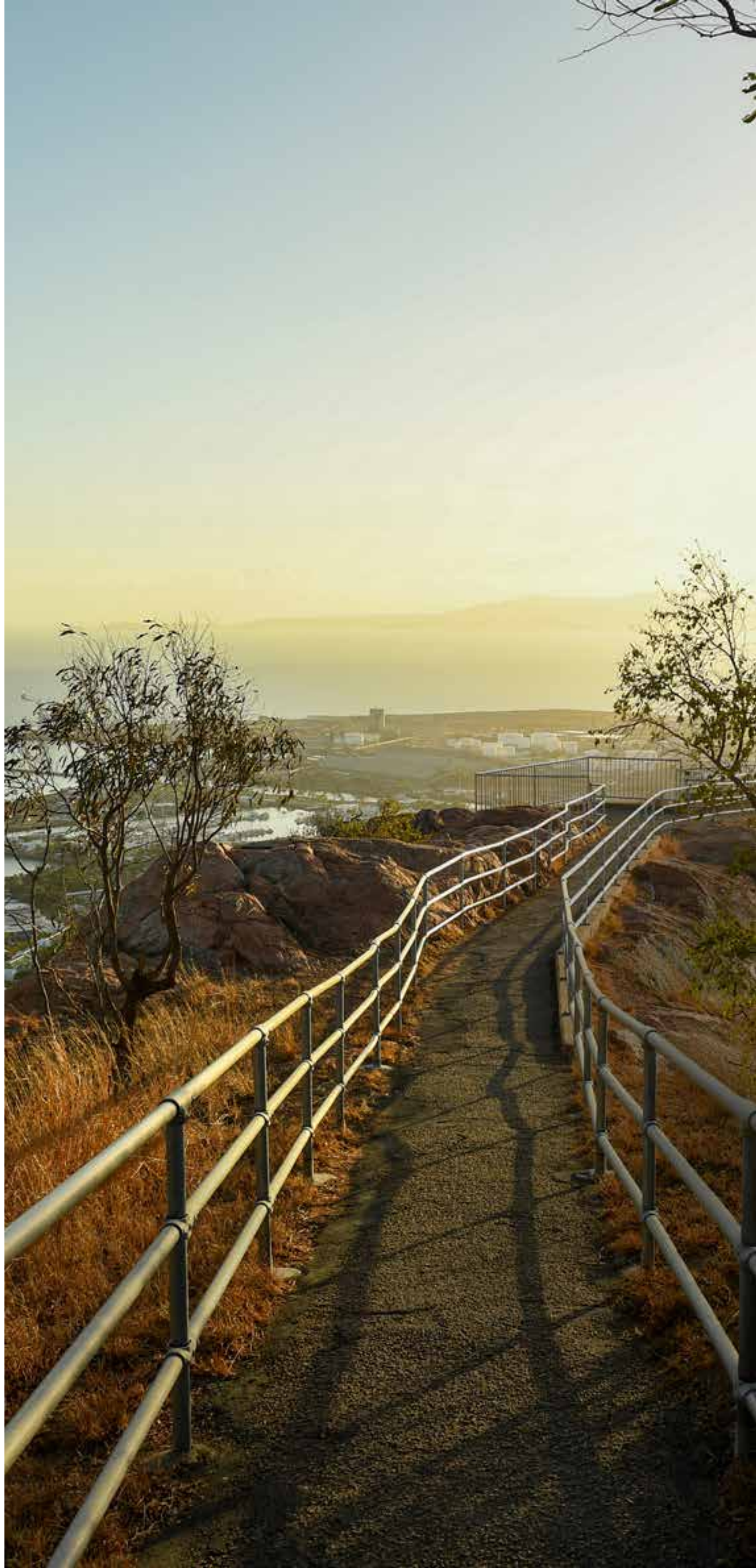
In Australia, despite the R&D tax incentive regime, the ownership of IP (especially at the later stages of development and commercialisation) has frequently moved offshore. This tax concession will apply from 1 July 2022 and includes taxing corporate income derived directly from Australian owned and generated patents at a corporate tax rate of 17%.

This change will see a decrease in the current corporate tax rate of 13% for large businesses and 8% for small to medium enterprises. Income from manufacturing, branding and other attributes will still be taxed at up to 30%. We note, however, details of the regime are yet to be finalised pending consultation with industry experts.

BDO COMMENT

BDO welcomes the introduction of a patent box regime and believes it has been the missing link in the incentive regime. In particular, it acts as an incentive for the international commercialisation of Australian developed technology to be retained in Australia, leading to numerous flow-on benefits, including further investment and development activities.

However, limiting the regime to medical, biotechnology and potentially clean energy innovations is not in line with similar regimes in other jurisdictions which are rightfully industry agnostic.



EXTENSION OF POWERS FOR THE ADMINISTRATIVE APPEALS TRIBUNAL IN RELATION TO SMALL BUSINESS TAXATION DECISIONS

The Administrative Appeals Tribunal (AAT) will be given the power to pause or modify ATO debt recovery action in relation to disputed debts under review by the AAT's Small Business Taxation Division (SBTD). The measure applies to tax debts disputed by small businesses with annual turnover of less than $10 million.

Under current laws, a stay on ATO debt recovery action, such as garnishee notices, can only be obtained through the court system. This is an expensive and time consuming process for small businesses, and provides no guarantee as to whether the stay will be granted.

The changes come following a recommendation from the Australian Small Business and Family Enterprise Ombudsman in April 2019, which called for a legislative amendment extending the AAT's powers to pause tax debt recovery action. The measures are intended to reduce legal fees and red tape for small businesses.

Under the new laws, taxpayers who file an application before the SBTD will be able to apply for a pause or modification of ATO debt recovery actions until the underlying dispute has been decided. In determining applications, the AAT will be required to consider the effect on the integrity of the tax system and ensure the underlying dispute is genuine.

BDO COMMENT

The power for the AAT to pause or modify ATO debt recovery actions makes sense where a debt is genuinely disputed and paying the debt prior to the resolution of the dispute would place an undue financial burden on the small business taxpayer.

BDO would like to see the AAT ensure disputes are genuine and consider the taxpayer's prospects of success in determining applications to modify debt recovery actions. It will be important taxpayers are not able to use this power to effectively delay debt recovery in cases where the taxpayer does not have reasonable prospects of success.

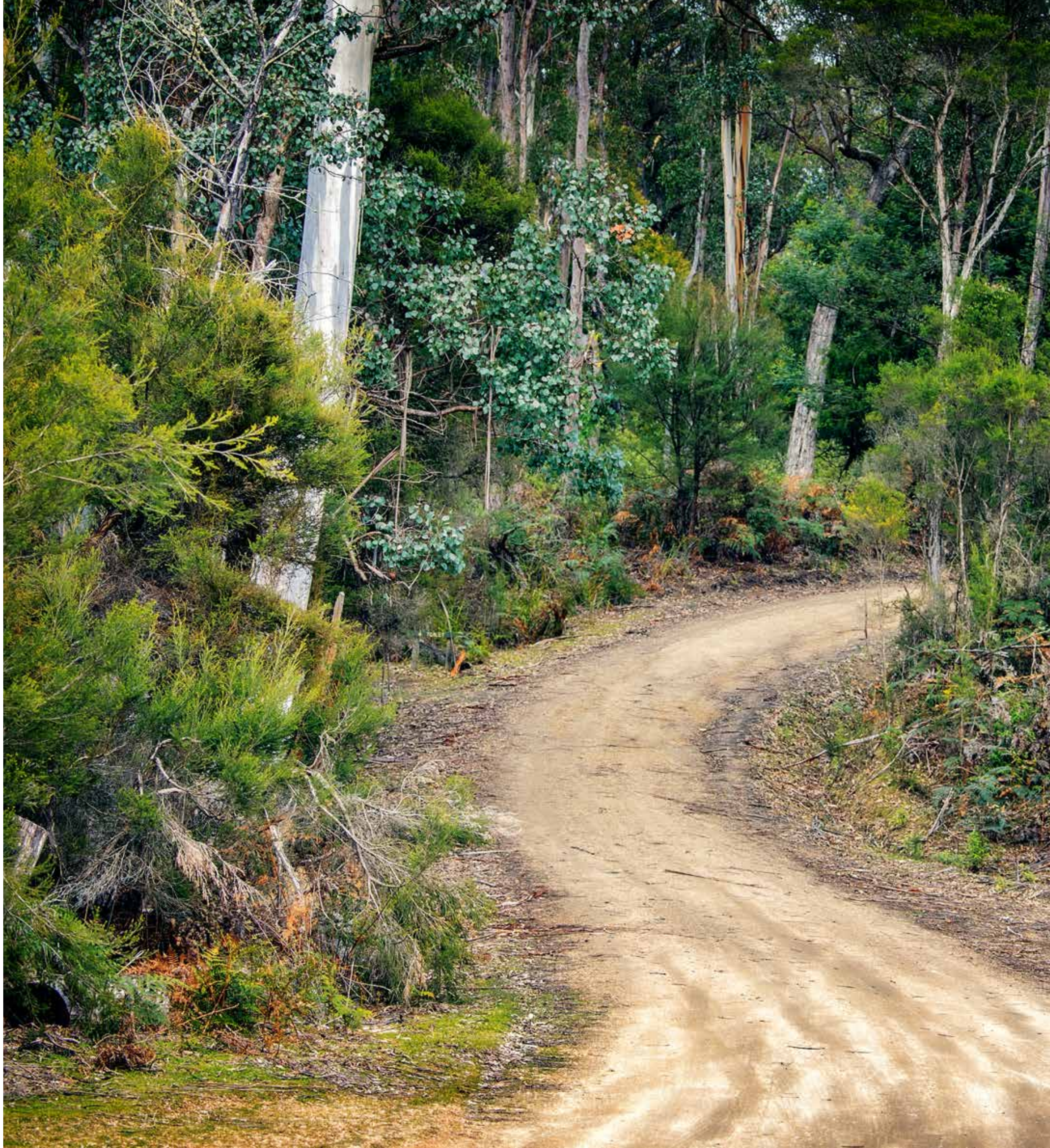
SELF-ASSESSED EFFECTIVE LIVES FOR INTANGIBLE ASSETS

Currently, the effective lives for intangible depreciating assets such as patents, registered designs, copyrights and in-house software are prescribed in the tax legislation. Unlike tangible depreciating assets, taxpayers do not currently have the option of self-assessing the effective life of intangibles and thereby increasing their depreciation deductions.

This measure allows taxpayers to self-assess the effective lives of eligible intangibles giving businesses a greater ability to align the tax treatment with the actual economic benefits provided from the asset. The new rules will apply from 1 July 2023 (after the temporary full expensing measures cease).

BDO COMMENT

Some industries are facing technological advances that are rapidly replacing products well before some of the lengthy effective lives currently hardwired in the legislation. This is a welcome amendment to the law.



JUNIOR MINERALS EXPLORATION INCENTIVE EXTENSION

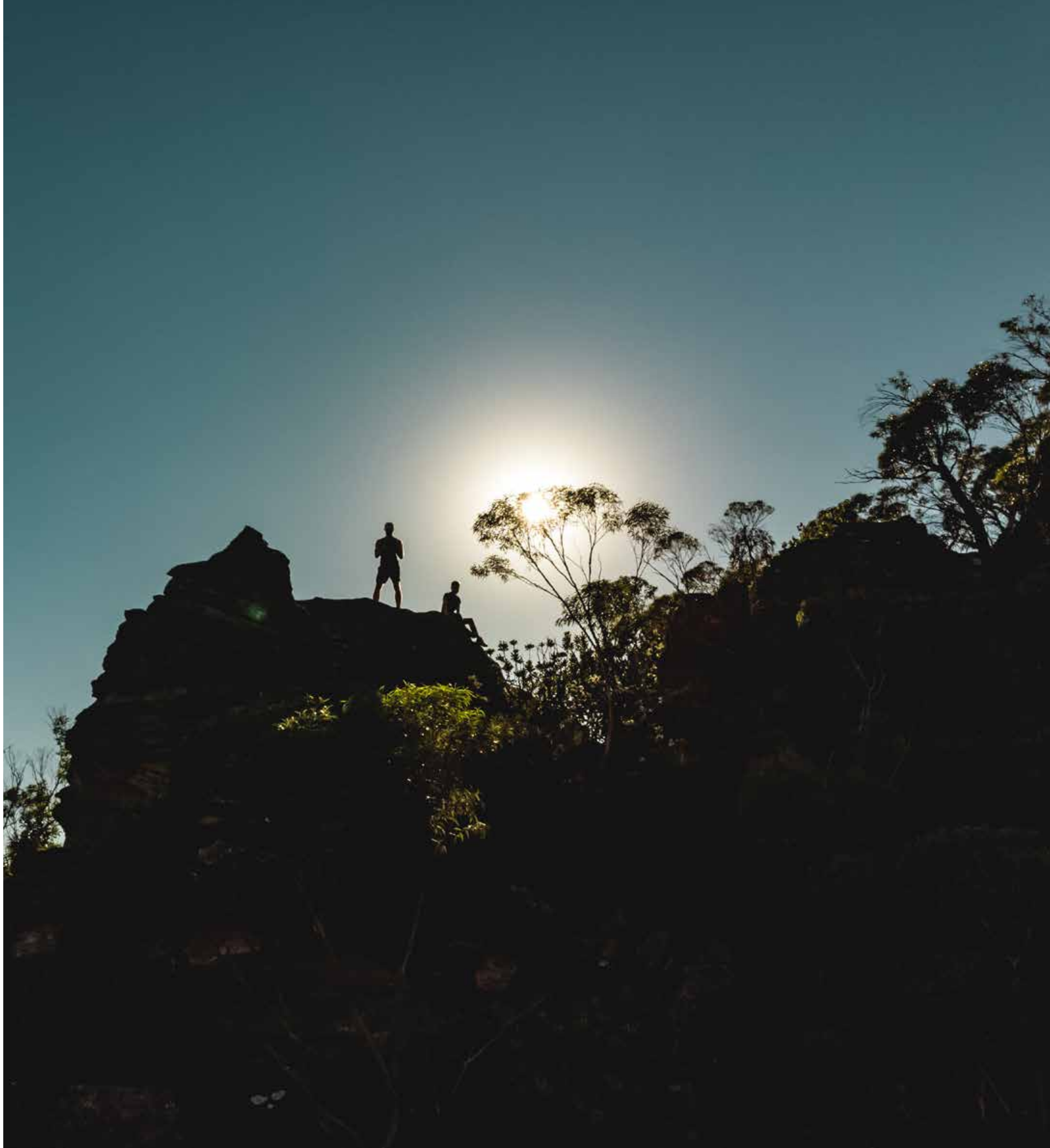
The Government has announced it will invest an additional $100 million of funding over a four year period to extend the Junior Minerals Exploration Incentive (JMEI) to the end of June 2025.

The JMEI commenced in the 2017/2018 financial year, and allows eligible entities undertaking greenfield exploration to convert a portion of their tax losses into an exploration credit, which can be distributed to new investors. The regime aims to incentivise new investment into the natural resources sector, with a view to create more employment opportunities within junior explorers.

BDO COMMENT

BDO can see the value in creating exploration credits for new investors. However, we would like to see a revitalised exploration incentive regime which is simpler to apply and easier for junior explorers to understand.

Notably the JMEI replaces the previously failed Exploration Development Incentive. It is possible the JMEI may also need to be replaced – in which case we hope it will be third time lucky for the Government in terms of exploration regimes.



TAXATION OF FINANCIAL ARRANGEMENTS – HEDGING AND FOREIGN EXCHANGE DEREGULATION

The Government has announced it will make technical amendments to the Taxation of Financial Arrangements rules to facilitate access to hedging rules on a portfolio hedging basis.

Under the current rules, if a taxpayer elects to apply the hedging financial arrangements method, the 'one-in, all-in' principle applies, and the taxpayer must apply the election to all of its hedging financial arrangements. The tax gain or loss must then be calculated on each hedging financial arrangement.

Although the details on the technical amendments are limited, the proposed amendment is intended to reduce compliance costs and correct unintended outcomes so taxpayers are not subjected to unrealised taxation on foreign exchange gains and losses, unless an election is made. Therefore, we expect the amendments to simplify the application of hedging rules.

The amendments will apply to relevant transactions entered into on or after 1 July 2022.

BDO COMMENT

BDO welcomes any technical amendments to the Taxation of Financial Arrangements rules that results in simplifying the application of an unnecessarily complex set of provisions that produce anomalous outcomes.

ALIGNMENT OF THE EXCISE REFUND SCHEME FOR BREWERS AND DISTILLERS

The Government will be increasing support to brewers and distillers by aligning the excise refund scheme for alcohol manufacturers with the Wine Equalisation Tax Producer Rebate (WET Rebate).

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

The Government has indicated there will be no requirement for the excise duty to be paid when the excise return is lodged, with the remission equating to a full offset of the excise duty liability until the maximum amount has been reached.

CURRENT SCHEME

Currently, eligible manufacturers can obtain a refund of 60% of the excise duty paid on products up to a cap of $100,000 per financial year. This can be obtained by:

- Calculating and paying full excise duty liability
- Applying for a 60% refund (up $100,000) via a separate form.

Wine Equalisation Tax Producer Rebate

By comparison, the WET Rebate provides a credit to wine producers up to $350,000 by:

- Calculating the WET liability on the Business Activity Statement at label 1C ‘Wine equalisation tax’
- Claiming the producer rebate in the same tax period (up to $350,000) on the Business Activity Statement at label 1D ‘WET Refundable’.

BDO COMMENT

This scheme is aimed at providing additional support to small distillers and brewers to keep more of what they earn, helping them to invest, grow and support around 15,000 Australians that are currently employed in the sector.

The WET Rebate has attracted criticism on the basis it distorts the economics of the industry, and has been open to abuse in order to maximise claims. BDO applauds the Government supporting small to medium enterprises, however, questions the efficacy of a rebate mechanism.

Instead, BDO considers these aims may be more efficiently achieved through the implementation of either a targeted grant scheme to eligible producers, or a reduction in the rate of excise. A grant scheme could allow eligible producers access to upfront cash for activities. Alternatively, a reduction in the rate of excise would allow for an enduring benefit to producers and not require any administrative changes.

THE ROAD TO INTERNATIONAL TAX COHERENCY AND TRANSPARENCY

In line with the global push to safeguard against offshore tax avoidance and evasion, the Government has introduced two measures promoting international tax coherency and transparency.

OFFSHORE BANKING UNITS

In response to the Organisation for Economic Cooperation and Development's (OECD) designation of Australia as a harmful tax regime, the Government has introduced measures to abolish the Offshore Banking Unit (OBU) regime. Under the proposed changes, the OBU regime:

- Removes the preferential tax rate of 10% currently available to participants on eligible activities
- Removes the interest and gold withholding tax exemption for OBUs from 1 January 2024
- Closes the OBU regime to new entrants from 26 October 2018
- Allows existing participants of the OBU regime to continue to have access to the preferential rate up until the end of the 2022/23 income year.

Under this proposal, existing participants of the OBU regime will not be immediately impacted. Concessional tax rates and withholding tax exemptions will continue to exist up to the end of the 2023 income year. After that time, OBUs will no longer enjoy special tax concessions.

EXCHANGE OF INFORMATION

Jurisdictions around the world have collectively moved towards greater tax transparency and the exchange of information. The Government will update the list of jurisdictions that have an Effective Information Sharing Agreement (EISA) with Australia.

Residents of jurisdictions with an EISA are eligible to access the reduced Managed Investment Trust (MIT) withholding tax rate of 15% on certain distributions, instead of the default tax rate of 30%. Effective from 1 January 2022, the list of countries will be expanded to include Armenia, Cabo Verde, Kenya, Mongolia, Montenegro and Oman.

BDO COMMENT

In the hope of tackling international tax avoidance and evasion, Australia has proposed to amend and update its international tax regime. We will wait to see whether Australia remains a competitive centre for financial services following its contribution to a more coherent international tax regime – and if we don't, then we may see a reduction in offshore investment.

FINALISED REGIME FOR CORPORATE COLLECTIVE INVESTMENT VEHICLES

The Government has announced they will finalise the corporate collective investment vehicles (CCIV) measure titled Ten Year Enterprise Tax Plan – implementing a new suite of collective investment vehicles, with a revised commencement date.

Originally, the Government had announced its intention to introduce a new tax and regulatory framework for CCIVs from 2017 as part of the 2016-17 budget, however, this did not eventuate.

2016-17 BUDGET

To recap, as part of the 2016-17 budget, the Government committed to introducing a new tax and regulatory framework for two new types of collective investment vehicles. Specifically, one of these collective investment vehicles was a CCIV which was intended to be introduced for income years starting on or after 1 July 2018.

The CCIV was to be an investment vehicle with a corporate structure providing flow through tax treatment. It would have allowed investors to pool their funds together and have them managed by a professional funds manager. These CCIVs would have been required to meet similar criteria as managed investment trusts - such as being widely held and engaging in primarily passive investment. Investors in these new CCIVs would generally be taxed as if they had invested directly.

CHANGES FINALLY TAKING PLACE

The Government will now finalise the CCIV component of the 2016-17 Budget with a revised commencement date of 1 July 2022. This investment vehicle will enhance the international competitiveness of the Australian managed funds industry by allowing fund managers to offer investment products using vehicles more familiar to overseas investors.

BDO COMMENT

Having been on the drawing board for five years, professional fund managers will be relieved to see this measure finally being introduced.

We trust that this measure can now be introduced quickly to allow Australia to reap the benefits of managing more funds from overseas investors.

TEMPORARY LEVY ON OFFSHORE PETROLEUM PRODUCTION

The Government will impose a temporary levy on offshore petroleum production to recover the costs of decommissioning of the Laminaria-Corallina oil fields and the associated infrastructure northwest of Darwin in the Timor Sea. The measure is designed to ensure taxpayers are not left to pay for the decommissioning and remediation of the fields and is part of the continued response to Northern Oil & Gas Australia being placed into liquidation and requiring Government intervention.

The Government has not quantified the specific impact of the levy citing commercial sensitivities. However, the Government has committed to consultations with the industry and has promised further announcements to come. The levy was one of a number of options being considered to try and avoid a repeat of the abandonment risks around the Northern Endeavour production ship in the Timor Sea.

The levy will terminate on 30 June of the year in which all costs associated with the decommissioning have been recovered.

BDO COMMENT

BDO welcomes the Government's initiative to responsibly decommission the Laminaria-Corallina oil fields and ensure Australian taxpayers are not left out-of-pocket.

However, given the lack of detail which has been released, it will be vital for the Government to engage with relevant stakeholders to ensure the levy is implemented in an appropriate manner. It will be critical to maintain a balance between implementing safeguards for taxpayers while also still encouraging investment in the sector. No doubt the levy will draw criticism from industry participants, with a number of prominent figures proposing the funds could be raised through operational efficiencies, deeper collaboration, or asset sales.

INDIVIDUALS

PERSONAL INCOME TAX CUTS

The Government continues its Personal Income Tax Plan with the announcement of a number of measures targeted towards low and middle-income earners. This will provide immediate relief to individuals and support economic recovery by boosting consumer spending.

RETAINING THE LOW AND MIDDLE INCOME TAX OFFSET

The coalition has again extended the low and middle income tax offset (LMITO) for a further year to the 2021-22 income year. The LMITO provides a reduction in tax of up to $1,080 for those earning less than $90,000 and will be received on assessment after individuals lodge their tax return.

Increasing the Medicare levy low-income thresholds

In addition, the Government will also increase the Medicare Levy low-income thresholds. This will apply to singles, families, and seniors and pensioners from 1 July 2020 to account for recent movements in CPI.

The thresholds will increase as follows:

- Singles - $22,801 to $23,226
- Families - $36,056 to $36,705
- Seniors and pensioners - $36,056 to $36,705
- Family threshold for seniors and pensioners - $50,191 to $51,094.

Self-education expense deductions

The Government will also remove the exclusion for the first $250 deduction for prescribed courses of education. The first $250 of expenses relating to prescribed course education is currently not deductible. The measure aims to reduce compliance costs for individuals claiming self-education expenses.

BDO COMMENT

BDO welcomes the continued support for low and middle-income earners and hopes it will assist families to bounce back from the effects of the COVID-19 pandemic.

MODERNISATION OF THE INDIVIDUAL TAX RESIDENCY RULES

In 2019 the Board of Taxation released a report on the reform of the individual tax residency rules with a key recommendation of using 'physical presence' in Australia as the primary measure of residency. In line with this and other recommendations in the Board of Taxation Report, the Government will replace the individual tax residency rules with a new modernised framework.

The primary test will be a 'bright-line' test where, a person who is physically present in Australia for 183 days or more in an income year, will be an Australian tax resident.

Those individuals who do not meet the primary test will be subject to secondary tests that depend on a combination of physical presence and measurable objective critera. The Board of Taxation recommend a day count test together with a new four factor test. The four factors referenced in the Report include:

1. The right to reside in Australia
2. Australian accommodation
3. Australian family
4. Australian economic connections.

BDO COMMENT

It is important to note that where an individual is both a tax resident of Australia under Australian tax legislation and a tax resident of another country under that country's domestic tax legislation, the existence of a Double Tax Agreement between the two countries will generally provide a 'tie breaker' test. The 'tie breaker' test will have application in preference to the Australian domestic tax legislation in determining tax residency.

What will be interesting, is to see how the secondary test will be drafted. It was the Board's recommendation that where two of the above four factors were satisfied the individual would be a resident under the four factor test. It may well be that the devil is in the detail in understanding the practical application of the proposed secondary test.

NZ MAINTAINS PRIMARY TAXING RIGHT OVER SPORTING TEAMS DUE TO COVID-19

The Government has introduced a measure to ensure New Zealand maintains its primary taxing right over members of sporting teams, as well as support staff, who are forced to exceed the 183-day residency test in order to compete in competitions within Australia. The measure will come into effect for both the 2021 and 2022 income tax and fringe benefits tax years.

BDO COMMENT

BDO supports the measure taken by the Government to ensure common sense prevails in light of the abnormal circumstances of COVID-19. Interestingly, it has not been extended to business executives who may also effectively be 'stranded' in Australia as a result of the pandemic.

EMPLOYEE SHARE SCHEMES – 'CESSATION OF EMPLOYMENT' NO LONGER A TAXING POINT

Employee Share Schemes (ESS) allow employers to attract, retain and motivate their employees by issuing options or shares to them, usually at a discount.

Currently, under the deferred taxing rules of ESS, an employee may defer tax until a later taxing point being the earliest of:

- Cessation of employment
- In relation to shares, when there is no real risk of forfeiture and no restrictions on disposal
- In relation to options, when the employee exercises the option and there is no real risk of forfeiture and no restrictions on disposal.

THE CHANGES TO EMPLOYEE SHARE SCHEMES

'Cessation of employment' has been removed as a taxing point under the deferred taxation rules. However, the change will only apply to ESS interests issued to employees in the income years commencing after the amending legislation is passed.

Secondly, the cap for qualification into the deferred taxation rules in respect of salary sacrifice arrangements by unlisted companies has been increased from $5,000 to $30,000.

BDO COMMENT

These changes are welcomed however they do not address the two material deficiencies of the Employee Share Scheme legislation:

1. Where the exercise of an option creates a taxing event (which it often does), employees can be forced to sell shares to fund the resulting taxation liability. A taxation liability should not arise until a share is sold
2. In certain circumstances where an option is exercised, the share must be held for 12 months to qualify for the 50% capital gains tax discount. The 12 month period should run from the time the option was granted.

It remains to be seen as to when, if ever, these deficiencies will be addressed by the Government.

FIRST HOME SUPER SAVER SCHEME (FHSSS) CHANGES AIMED TO INCREASE UPTAKE

The Government has continued its commitment to reducing pressure on housing affordability for aspiring first home owners through the First Home Super Saver Scheme (FHSSS). In the latest change to the scheme, the maximum releasable amount of voluntary concessional and non-concessional contributions has been increased from $30,000 to $50,000.

Voluntary contributions made from 1 July 2017 up to the existing limit of $15,000 per annum will apply towards the total amount able to be released. This increase will apply from the start of the first financial year after Royal Assent, expected to occur by 1 July 2022. The increased cap will ensure the FHSSS continues to help first home buyers raising a deposit more quickly, primarily through the special tax treatment of super and associated investment earnings.

TECHNICAL CHANGES

Additionally, to improve the operation of the FHSSS and assist applicants who make errors on the release applications, the Government will make four technical changes to the legislation underpinning the scheme by:

- Increasing the discretion of the Commissioner of Taxation to amend and revoke FHSSS applications
- Allowing individuals to withdraw or amend their applications prior to receiving a FHSSS amount, and allow those who withdraw to re-apply for FHSSS releases in the future
- Allowing the Commissioner of Taxation to return any released FHSSS money to superannuation funds, provided the money has not yet been released to the individual
- Clarifying the money returned by the Commissioner of Taxation to superannuation funds is treated as funds' non-assessable, non-exempt income and does not count towards the individual's contribution caps.

BDO COMMENT

The increase in the maximum releasable amount brings the FHSSS up to speed with current deposit requirements and the technical changes respond to key issues faced by current users of the FHSSS. However, the complexities surrounding the release mechanism and general process remain.

Further, the additional years required to reach the maximum releasable amount under the FHSSS due to the annual limit and increased uncertainty over the constant changes may not increase the limited (to date) uptake of the FHSSS.

EASING OF RESTRICTIONS AROUND SUPERANNUATION

Australians can look forward to more opportunities to top up super balances as they approach retirement and beyond.

HAS THE WORK TEST REALLY BEEN ABOLISHED?

From 1 July 2022 Australians will no longer need to meet the work test to be eligible to make non-concessional superannuation contributions and receive salary sacrifice contributions.

Individuals aged 67-74 years will still have to meet the work test to make personal deductible contributions.

Currently individuals aged between 67-74 years of age are restricted from making certain contributions unless they are working at least 40 hours in a 30 day consecutive period, which is known as the work test.

DOWNSIZER CONTRIBUTIONS

From 1 July 2022, Australians over 60 years of age will be eligible to make downsizer contributions. Previously the downsizer contribution was limited to Australians over age 65. The other eligibility criteria for the downsizer contribution remain unchanged.

Originally introduced in the 2018 Budget, people aged 65 and over were allowed to sell their own home if they had owned it for at least ten years and then make a one off contribution of up to $300,000 into superannuation.

The government is proposing to open up the age for eligibility to include those from age 60 in order to free up stock and create movement in the property market.

SELF MANAGED SUPERANNUATION FUNDS (SMSFS) & RESIDENCY

SMSFs have long been disadvantaged from a tax perspective where SMSF members are absent from Australia for extended periods of time. In this budget the Government proposes to relax the rules such that the SMSF and members now only need to meet two rules to be eligible for concessional tax treatment:

- The fund must be established in Australia or hold an asset in Australia
- The members cannot be temporarily absent from Australia for more than five years.

This will enable SMSF members to be absent from Australia for longer than is currently the case, whether for work, education or due to COVID-19. It will also enable overseas members to continue to contribute to their Australian SMSF without penalty within the five year period. This is expected to apply from 1 July 2022.

LEGACY PENSIONS

Individuals will be allowed to exit certain Legacy Retirement Products including Market Linked Pensions within a two year window from the first financial year after the date of Royal Assent.

BDO COMMENT

The budget announcement included a number of positive changes to superannuation which will not only benefit Australians approaching, or already in retirement, but will also benefit younger home buyers.

While we were hoping for further simplification of superannuation rules around pensions, we welcome any easing of restrictions encouraging Australians to save for their retirement.

BDO supports the removal of the work test but we question if the age limit of 74 is relevant in the current environment where individuals are restricted in the amount they can contribute to superannuation based on their total superannuation balance.

BDO welcomes the relaxation of residency requirements for SMSFs, enabling SMSF members to have similar outcomes to members of large superannuation funds.

SUPERANNUATION GUARANTEE ELIGIBILITY THRESHOLD REMOVED

The Government is proposing to remove the $450 per month minimum income threshold which determines whether employees have to be paid the superannuation guarantee by their employer. This will begin from the first financial year after the proposed legislation receives Royal Assent.

The superannuation guarantee refers to the minimum percentage of earnings an employer needs to pay into their employee's superannuation fund. The superannuation guarantee is currently 9.5%, but will increase on 1 July 2021 to 10%.

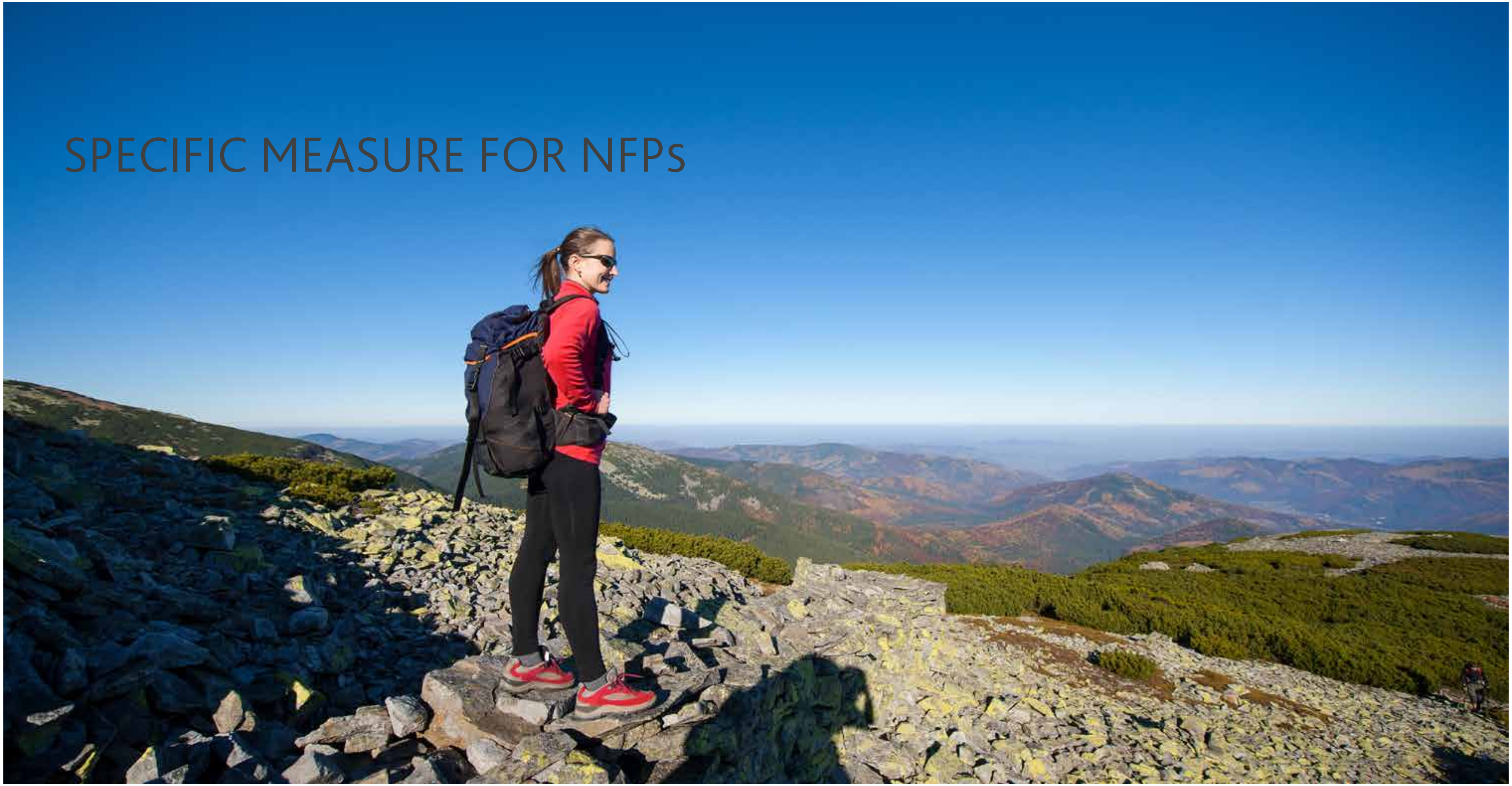
Currently, where employees are paid $450 or more (before tax) in a calendar month, superannuation guarantee is payable on those wages. This threshold was introduced to prevent the administrative burden of facilitating the superannuation guarantee for employers with employees in casual employment arrangements.

This proposed measure will ensure lower income earners are not missing out on the benefit of having superannuation accrue for their retirement. In particular, an estimated 300,000 individuals would currently be eligible to receive these additional superannuation guarantee payments (as per the *Retirement Income Review*). Unsurprisingly, 63% of those who would be eligible for these payments are women which means, if implemented, this measure is a win for equity in the superannuation system.

BDO COMMENT

Although removing this threshold represents a huge win for lower income earners and superannuation equity for all, the administrative burden on employers should not be underestimated. Once this measure is implemented, employers will need to ensure they have an appropriate and up-to-date payroll system in place and be able to track and capture any casual working arrangements. The cost of the superannuation guarantee shortfall for unpaid or late superannuation guarantee is very high.

Further, where employers are determining whether they have someone working under a contractor or employee relationship, this added superannuation guarantee burden can become quite contentious. Further simplification of the system remains overdue.



SPECIFIC MEASURE FOR NFPs

NOT-FOR-PROFIT ENTITIES – INCOME TAX EXEMPTION STATUS TRANSPARENCY

The Government has announced proposed changes to enhance transparency of income tax exemptions for certain not-for-profit entities (NFPs).

Currently non-charitable NFPs can self-assess their eligibility for income tax exemptions, without an obligation to report to the Australian Taxation Office (ATO). 'Self-assess' means an organisation can work out for itself whether it is income tax exempt or taxable. Organisations that can self-assess their income tax status do not currently need to be endorsed by the ATO or obtain confirmation of their income tax status from the ATO. There is a worksheet available on the ATO website that NFPs, that are not charities, can use to self-assess their income tax status.

It is proposed the ability to 'self-assess' will change, such that the ATO will require income tax exempt NFPs with an active Australian Business Number (ABN) to submit online self-review forms annually. These forms will utilise the information they ordinarily use to self-assess their eligibility for the exemption. It is proposed this measure commence from 1 July 2023.

The Government believes this measure will ensure that only eligible NFPs are accessing income tax exemptions.

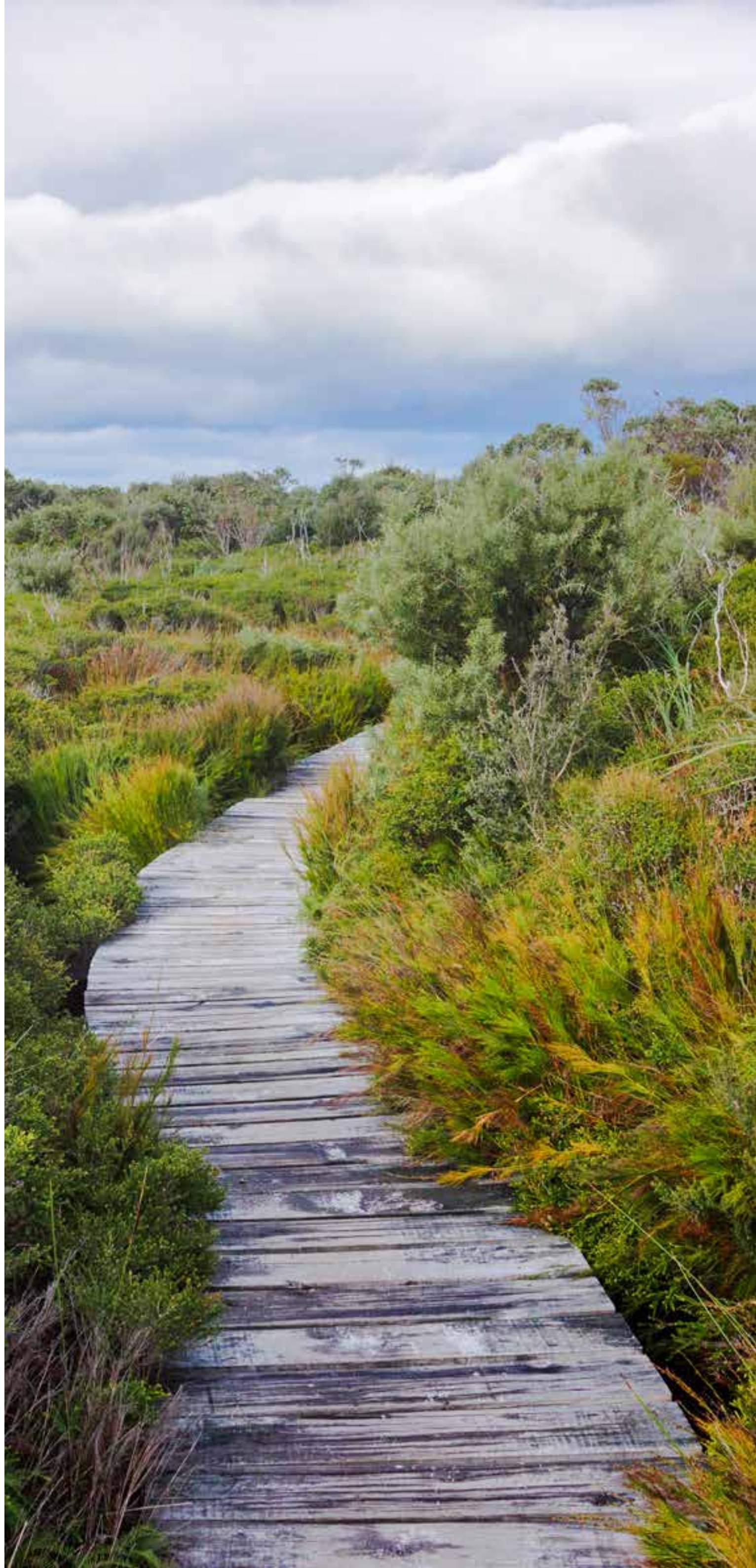
BDO COMMENT

This proposed measure is likely to increase the number of income tax returns being lodged in this sector. There is no spotlight on these 'self-assessed' entities currently allowing the ATO to review eligibility for income tax exemption status. This measure will ensure such entities will have to report the basis for why the entity is relying on an income tax exemption and, if this is not in order, then the entity will become a tax paying entity and be required to lodge an income tax return.

The issue of 'self assessment' has been around since 2009 when increased accountability and reporting in this sector was raised by the Henry Review.

In recent years the ATO has appointed an Assistant Commissioner in the area of Not-for-Profit Centre and Government Relations. This has allowed the ATO to focus further on the sector and the eligibility of entities for income tax exemption status.

We recommend non-charitable NFPs be more cautious and review their governance procedures, so they are confident when conducting their activities that they maintain their income tax exemption.



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