Australian Banking Association

ANALYSIS: Federal Budget 2021-22

Key Announcements

As expected – Budget 2021/22 includes a big focus on aged care, the NDIS, support for first homebuyers and tax relief for low and middle income earners.

There's not much in the way of new announcements tonight – the vast majority of measures were announced over the past few weeks.

Key budget measures include:

- Extension of temporary full expensing for another year until 30 June 2023. Temporary loss carry back is also extended. (further details below).
- First Homebuyer schemes expanded, as already announced.
- A new "Patent Box" – 17% concessional tax rate for income from new patents developed in Australia.
- Low and Middle Income Tax Offset extension for another year.
- $13 billion over 4 years for NDIS.
- $17 billion over 5 years on aged care.

Business Investment

Temporary full expensing extension

The Government will extend the 2020-21 Budget measure titled *JobMaker Plan — temporary full expensing to support investment and jobs* for 12 months until 30 June 2023 to further support business investment and the creation of more jobs.

Temporary full expensing will be extended to allow eligible businesses with aggregated annual turnover or total income of less than $5 billion to deduct the full cost of eligible depreciable assets of any value, acquired from 7:30pm AEDT on 6 October 2020 and first used or installed ready for use by 30 June 2023.

The 12-month extension will provide eligible businesses with additional time to access the incentive. This will encourage businesses to make further investments, including in projects requiring longer planning times, and continue to support economic recovery in 2022-23. All other elements of temporary full expensing will remain unchanged, including the alternative eligibility test based on total income, which will continue to be available to businesses. From 1 July 2023, normal depreciation arrangements will apply.

Temporary loss carry-back extension

The Government will further support Australia's economic recovery and business investment by extending the 2020-21 Budget measure titled *JobMaker Plan — temporary loss carry-back to support cash flow*. The extension will allow eligible companies to carry back (utilise) tax losses from the 2022-23 income year to offset previously taxed profits as far back as the 2018-19 income year when they lodge their 2022-23 tax return. Loss carry-back encourages businesses to invest, utilising the 2021-22 Budget measure titled *Temporary full expensing extension* by providing eligible companies earlier access to the tax value of losses generated by full expensing deductions.

Companies with aggregated turnover of less than $5 billion are eligible for temporary loss carry-back. The tax refund is limited by requiring that the amount carried back is not more than the earlier taxed profits and that the carry-back does not generate a franking account deficit. Companies that do not elect to carry back losses under this measure can still carry losses forward as normal.

Australian Banking Association

Financial Market Infrastructure

Financial Market Infrastructure Regulatory Reforms

The Government will introduce a Financial Market Infrastructures (FMIs) regulatory reform package to provide Australian Regulators with sufficient power to pre-emptively identify and manage risks, or intervene in a FMI failure crisis. The reform package will:

- allow the Reserve Bank of Australia (RBA) to manage a failure at a clearing and settlement facility
- enhance the supervisory and licensing power of the Australian Securities and Investments Commission and the RBA
- streamline regulatory powers to improve the efficiency of regulatory administration.

The reforms would be accompanied by a facility for the RBA to draw up to $5 billion per event as a last resort measure to ensure the continued operation of clearing and settlement facilities, with any funding to be recovered once a crisis is resolved.'

Government regulatory funding

Treasury Portfolio — resourcing for Government priorities

The Government will provide $57.9 million over five years from 2020-21 to support the delivery of Government priorities in the Treasury Portfolio. Funding includes:

- $49.0 million for the Department of the Treasury to support its engagement with and support for Treasury portfolio agencies, including the Australian Small Business and Family Enterprise Ombudsman, and the Australian Securities and Investment Commission
- $6.0 million for the Treasury and Australian Taxation Office to accelerate the program of tax treaty negotiations
- $2.5 million for the continued operation of the Financial Adviser Standards and Ethics Authority Ltd until it is wound up on 31 December 2021
- $0.5 million to consult on and develop options to improve the regulation of proxy advice.

Commonwealth's Deregulation Agenda

The Government will provide $134.6 million over four years from 2021-22 to progress the Commonwealth's deregulation agenda to reduce unnecessary regulatory burden and support Australia's economic recovery by making it easier for businesses to get people into jobs and interact with government. Funding includes:

- $10.0 million over four years from 2021-22 to modernise business communication by amending legislation in the Treasury Portfolio to be technology neutral
- $3.9 million over two years from 2021-22 to enable reviews to increase the transparency and accountability of regulator cost recovery activities and reduce cost to business on an ongoing basis

Digital Economy Strategy

The Government will provide $1.2 billion over six years from 2021-22 (including $127.7 million in capital funding over two years from 2021-22) for the *Digital Economy Strategy*, to support Australia to be a leading digital economy and society by 2030. The *Digital Economy Strategy* is about investing in the settings, infrastructure and incentives to grow Australia's digital economy to ensure businesses across all sectors are able to lift productivity and be globally competitive. The *Digital Economy Strategy* includes support for the following priorities:

- $111.3 million over two years from 2021-22 (including $35.0 million in capital funding) to continue implementation of the Consumer Data Right in the banking sector and to accelerate its rollout to other parts of the economy including the energy and telecommunications sectors
- $43.8 million over three years from 2021-22 to expand the Cyber Security Skills Partnership Innovation Fund. The Fund invests in projects to improve the quality and quantity of cyber security professionals in Australia and the additional funding will be provided to further secure and build capability across national priority sectors identified in the Modern Manufacturing Strategy
- $3.2 million in 2021-22 to extend the Digital Technology Taskforce until 30 June 2022 to support implementation of the Digital Economy Strategy.

Housing

The Government will provide $782.1 million over four years from 2021-22 to increase home ownership, support jobs in the residential construction sector and enhance housing data. Funding includes:

- $774.8 million over two years from 2021-22 for the HomeBuilder program to extend the construction commencement requirement from six months to 18 months for all existing applicants
- $5.8 million over three years from 2021-22 to continue to support the Australian Housing and Urban Research Institute to deliver the National Housing and Urban Research Program
- $1.2 million over four years from 2021-22 for the Australian Institute of Health and Welfare to maintain and enhance the Housing Data Dashboard website, with costs partially offset by National Housing Finance and Investment Corporation research funding
- Establishing the Family Home Guarantee with 10,000 places from 2021-22 to support single parents with dependants to enter, or re-enter, the housing market with a deposit of as little as 2 per cent
- extending the First Home Loan Deposit Scheme to provide an additional 10,000 New Home Guarantees in 2021-22 to allow eligible first home buyers to build a new home or purchase a newly constructed home sooner with a deposit of as little as 5 per cent.

Superannuation

First Home Super Saver Scheme — increasing the maximum releasable amount to $50,000

The Government will increase the maximum releasable amount of voluntary concessional and non-concessional contributions under the First Home Super Saver Scheme (FHSSS) from $30,000 to $50,000.

First Home Super Saver Scheme — technical changes

The Government will make four technical changes to the legislation underpinning the First Home Super Saver Scheme (FHSSS) to improve its operation as well as the experience of first home buyers using the scheme. These four changes assist FHSSS applicants who make errors on their FHSSS release applications 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 them 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 that the money has not yet been released to the individual
- clarifying that 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.

This measure will apply retrospectively from 1 July 2018. It is estimated to decrease the underlying cash balance by $22.6 million over the forward estimates period.

Tax

International Tax — removing the preferential tax treatment for Offshore Banking Units

The Government will remove the concessional 10 per cent effective tax rate that applies to income derived from eligible offshore banking activities. Existing Offshore Banking Units (OBUs) can continue to access the concessional 10 per cent effective tax rate until the end of their 2022-23 income year. The Government will also close the OBU regime to new entrants, effective from 26 October 2018.

Taxation of Financial Arrangements — hedging and foreign exchange deregulation

The Government will make technical amendments to the Taxation of Financial Arrangements legislation which will include facilitating access to hedging rules on a portfolio hedging basis. The amendments will also reduce compliance costs and correct unintended outcomes, so that taxpayers are not subject to unrealised taxation on foreign exchange gains and losses unless this is elected. These changes will take effect for relevant transactions entered into on or after 1 July 2022.

Employee Share Schemes — removing cessation of employment as a taxing point and reducing red tape

The Government will remove the cessation of employment taxing point for the tax- deferred Employee Share Schemes (ESS) that are available for all companies. This change will apply to ESS interests issued from the first income year after the date of Royal Assent of the enabling legislation.

Employers use ESS to attract, retain and motivate staff by issuing interests such as shares, rights (including options) or other financial products to their employees, usually at a discount.

This change will result in tax being deferred until the earliest of the remaining taxing points.

The Government will also reduce red tape for ESS by:

- removing regulatory requirements for ESS, where employers do not charge or lend to the employees to whom they offer ESS
- where employers do charge or lend, streamlining requirements for unlisted companies making ESS offers that are valued at up to $30,000 per employee per year.

Personal Income Tax — increasing the Medicare levy low-income thresholds

The Government will increase the Medicare levy low-income thresholds for singles, families, and seniors and pensioners from 1 July 2020 to take account of recent movements in the CPI so that low-income taxpayers generally continue to be exempt from paying the Medicare levy.

Retaining the low and middle income tax offset for the 2021-22 income year

The Government will retain the low and middle income tax offset (LMITO) for the 2021-22 income year, providing further targeted tax relief for low- and middle-income earners.

The LMITO provides a reduction in tax of up to $1,080.

Insolvency Reform

The Government will continue to examine ways to improve Australia's insolvency laws, including consulting on options to:

- clarify the treatment of trusts with corporate trustees under Australia's insolvency law
- improve schemes of arrangement processes to better support businesses, including by introducing a moratorium on creditor enforcement while schemes are being negotiated.

The Government will also:

- increase the minimum threshold at which creditors can issue a statutory demand on a company from $2,000 to $4,000
- commence an independent review of the insolvent trading safe harbour.

Protecting Critical Infrastructure and Systems of National Significance

The Government will provide $42.4 million over two years from 2021-22 to improve security arrangements for critical infrastructure assets, including those designated as Systems of National Significance, in accordance with the Security Legislation Amendment (Critical Infrastructure) Bill 2020 (currently before the Parliament) and to assist critical infrastructure owners and operators to respond to significant cyber-attacks.

Resilience

Cyclone and Related Flooding Reinsurance Pool

The Government will establish a reinsurance pool to cover cyclone and related flood damage in Northern Australia to commence from 1 July 2022. The reinsurance pool will be backed by a $10 billion government guarantee. The Government will provide $2.4 million in 2021-22 to the Department of the Treasury to establish a taskforce to consult industry and experts on the design and implementation of the reinsurance pool for cyclone and related flood damage across Australia to reduce the rising cost of insurance premiums associated with cyclone damage.

Building Australia's Resilience

The Government will provide $1.2 billion over five years from 2020-21 to improve Australia's capability to better prepare for, respond to, and recover from natural disasters. As part of this measure, the Government will establish a new national agency to help support local communities respond to large-scale natural disasters and undertake new initiatives to manage the impact of future events and the changing climate. Funding includes:

- $8.5 million in 2021-22 for the Rural Financial Counselling Service to improve delivery of financial counselling services to primary producers experiencing financial hardship, and extend support for a further six months for rural and regional small businesses affected by drought, COVID-19 or the 2019-20 bushfires

Disaster Recovery Funding Arrangements

The Government will provide $275.9 million over three years from 2021-22 to the states and territories under the Disaster Recovery Funding Arrangements.

Payment times

An Enhanced Payment Times Reporting Scheme

The Government will provide an additional $16.0 million over four years from 2021-22 to ensure the effective operation of the Payment Times Reporting Scheme, which came into effect on 1 January 2021. The Scheme requires large businesses to report on their payment times to small businesses.

Australian Banking Association

Relief to Foreign Financial Service Providers

The Government will consult on options to restore previously well-established regulatory relief for Foreign Financial Service Providers (FFSPs) who are licensed and regulated in jurisdictions with comparable financial service rules and obligations, or have limited connection to Australia, from holding an Australian Financial Service License, in order to reduce duplicate regulatory requirements. The relief is limited to FFSPs that deal with wholesale clients and professional investors.

The Government will also consult on options to create a fast-track licensing process for FFSPs who wish to establish more permanent operations in Australia. Fast-tracking is intended to shorten application timeframes and reduce barriers to entering the Australian market.

SME Recovery Loan Scheme

The Government will provide participating lenders with a guarantee for 80 per cent of secured or unsecured loans of up to $5 million for a term of up to 10 years and with interest rates capped at 7.5 per cent, with some flexibility around variable rate loans. Loans can be used by the SME for a broad range of business purposes, including to support investment and refinancing existing loans. Lenders will be able to offer borrowers a repayment pause of up to two years.

Regulator levies

ASIC

	2020-21	***2021-22***	***2022-23***	***2023-24***	***2024-25***
	Estimated actual (000)	***(000)***	***(000)***	***(000)***	
Taxation revenue	917,326	960,917	989,184	1,007,552	1,032,659
Non taxation	836,620	697,280	698,128	686,225	691,104
(fines, other forms of regulatory services, other revenue)					

APRA

	2020-21	**2021-22**	**2022-23**	**2023-24**	**2024-25**
	Estimated actual (000)	**(000)**	**(000)**	**(000)**	**(000)**
Financial Institutions Supervisory Levies Collection Act	222,980	262,941	234,508	235,521	233,765

Major bank levy

	2020-21	2021-22	2022-23	2023-24	2024-25
Major Bank Levy (2020-21 Budget)	$1.650bn	$1.7bn	$1.75bn	$1.8bn	
Major Bank Levy (2021-22 Budget)	*$1.65bn*	*$1.65bn*	*$1.7bn*	*$1.75bn*	*$1.85bn*
Change $mn	0	-$50mn	-$50mm	$50mn	-

General Budget and Economic forecasts

- 2020/21 deficit of $161 billion, falling to $57 billion by 2024/25.
- Net debt to reach 40.9% of GDP in 2024/25.
- GDP to grow 4.25% in 2021/22 before falling back to 2.5%.
- Unemployment rate forecast for 5% in 2021/22, reaching 4.5% by 2023/24.
- CPI 1.75% in 2021/22, rising to 2.5% in 2023/24.
- Total business investment is forecast at 1.5% in 2021/22, rising to 10% in 2022/23.
- Household consumption to reach 5.5% in 2021/22, falling to 4% in 2022/23.