

Tuesday, 11 May 2021

# QuickTake Budget 2021-22

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## A budget designed to fuel the economic rebound

The Commonwealth Government has clearly signaled its intention to do whatever it takes to support the economic recovery.

This budget should be its last major fiscal announcement ahead of an election due in May next year. An early election is now on the cards.

The Treasurer announced a \$107 billion dollar budget deficit with a focus on jobs, business growth, and protecting the most vulnerable Australians.

With international borders not expected to fully reopen until mid-2022, the government targeted significant spending in health, aged care, women's safety, and disaster resilience.

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The government will spend \$589 billion in 2021-22, resulting in a deficit of \$106.6 billion

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GDP growth of 5 ¼ per cent in 2021 and 2 ¾ per cent in 2022

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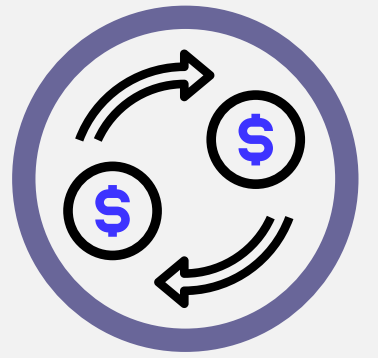
Net debt will grow to \$729.0 billion (34.2 per cent of GDP) in 2021-22

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\$17.2 billion for aged care and \$15 billion invested into infrastructure

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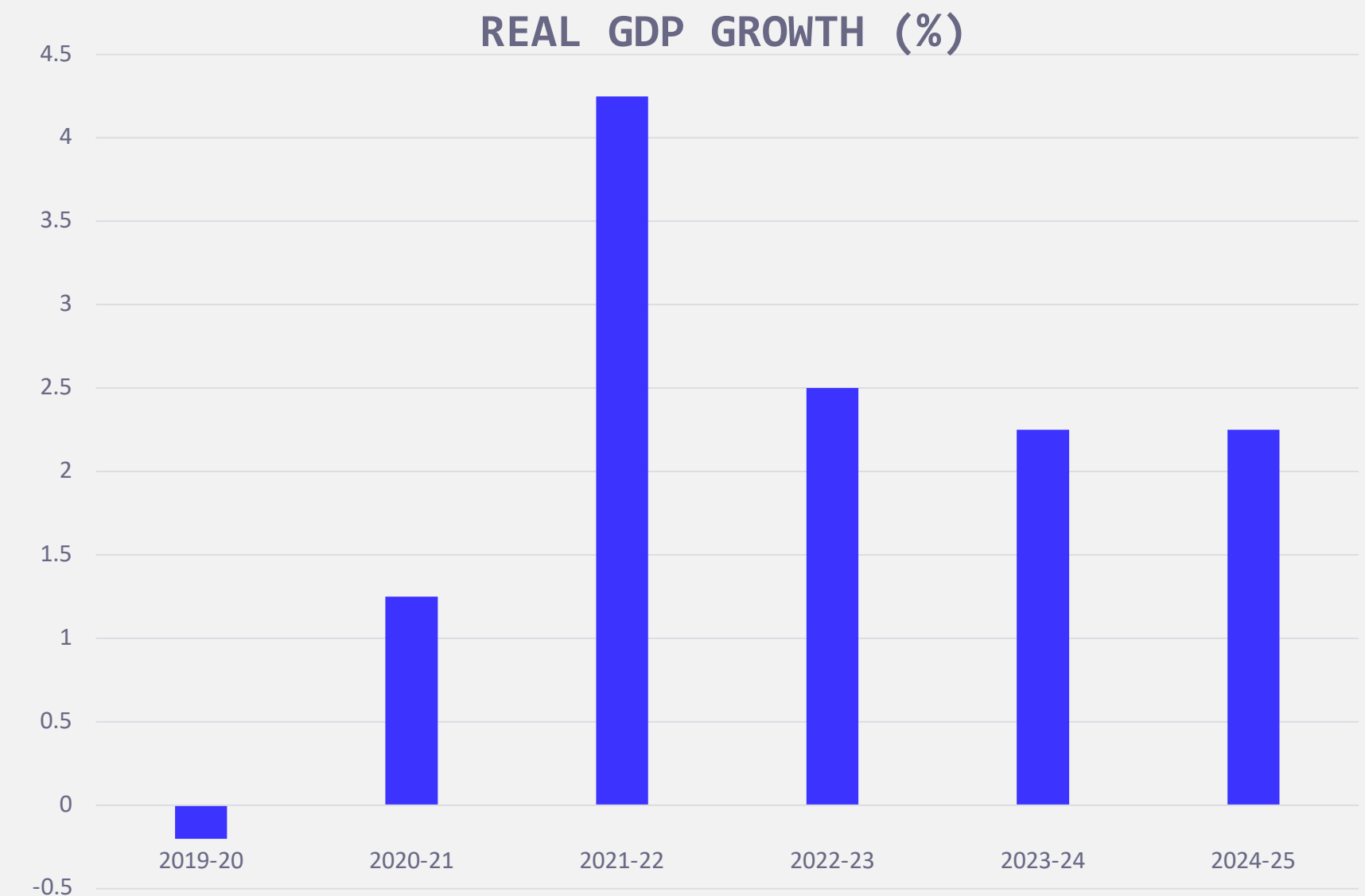
Aim to push unemployment rate towards 4.5 per cent



# The Economy

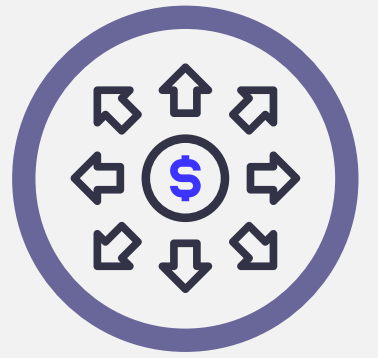
This budget assumes international borders will remain closed until mid-2022.

- The 1½ per cent decline in GDP forecast for 2020-21 in the October budget last year has been revised to growth of 1¼ per cent for the current financial year.
- These economic gains are amplified in the forward estimates with GDP growth forecasted to be 4¼ percent in 2021-22 then remaining about 2 percent until 2024-25.
- The labour market is recovering strongly, and the unemployment rate is forecast to reach 5 percent in the June quarter of 2022 before falling further to 4¾ per cent in 2023.
- The consumer price index (CPI) is forecast to rise to 3½ per cent in 2021-21, returning to the RBA's target band of 2-3 per cent by 2022-23.



Source: Budget 2021-22, Budget Paper 1, Table 1.2: Major economic parameters, pp. 9

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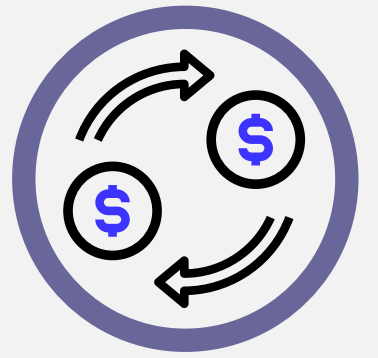


# Individuals – a focus on women

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- For the first time, the budget has a dedicated Statement on Women.
- This budget provides \$1.8 billion in the five years from 2020-21 to improve women's participation and economic security – however only \$18m is forecasted to be spent in the 2021-22 financial year. This is mainly because the funding package includes \$1.7 billion to remove the cap on earnings for childcare subsidies and increase the subsidy for families with two or more children in care. This \$1.7 billion investment will not come into effect until July 2022 – after the next election.
- Women's safety is a key policy initiative, with \$988.1 million provided over the forward estimates to address family and domestic violence. Included in this package is \$164.8 million over the three years from 2021-22 for a trial program of financial support of up to \$5,000 for women fleeing a violent relationship.
- The Family Home Guarantee, is a new policy designed to help single mothers and fathers overcome one of the biggest hurdles to achieving the dream of homeownership by backing single parents to buy their own home with a deposit as modest as 2 per cent.
- The New Home Guarantee will add an additional 10,000 places allowing first home buyers to enter the market with a 5 percent deposit, with government guaranteeing up to 15 per cent of the loan.

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# Business and Tax

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- Restoring business confidence and encouraging private sector investment will be critical in recovering the lost economic ground of 2020. Support for small business and startups is clearly a priority for the government, with a range of measures announced in this budget.
- The instant asset writes off for machinery and equipment has been extended for another year, allowing tax breaks for over 99 per cent of Australian businesses.
- The government has continued to encourage new business investment, launching a 'patent box' for which income earned from new patent developed in Australia will be taxed at 17 per cent, around half of the company tax rate.
- The low-and middle-income tax offset (LMITO) will remain in place for another year. Originally released by the Morrison government in the 2018 budget, the 'Lamington' as it is affectionally known was designed as a short-term tax break for working Australians. Extensions each year since now see it provide a rebate of up to \$1,080 for workers earning \$48,000 to \$90,000. Treasury estimates this will provide \$7.8 billion in targeted support to 10.2 million Australian workers, boosting GDP by around \$4.5 billion in 2022-23.

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# Infrastructure

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- The government has announced major infrastructure and capital works programs aiming at creating local jobs that boost long term productivity. This includes further to deliver ongoing efficiencies and productivity improvements that will uplift the country's growth capacity.
- More than \$15.0 billion in spending on major infrastructure projects over the next 10 years acts as a cornerstone to the federal government's efforts to embed the recovery from the COVID-19 recession.
- The funding will cover all states and territories, including \$2 billion for a new freight hub in Melbourne and another \$2 billion to upgrade the Great Western Highway in New South Wales. While this budget measure is notionally targeted at 'shovel ready' projects, only a fraction of the funds will be spent in the 2021-22 year (\$5 million in Victoria and \$44 million in NSW).
- The Commonwealth will provide \$12.1 billion in support to state infrastructure projects in 2021-22 mainly through previously announced funding packages.

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# Superannuation

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- Policy levers to address gender inequality are prominent throughout the budget, with the government removing the \$450 per month minimum income threshold for the superannuation guarantee. This is forecasts to improve contributions for around 200,000 working women.
- The existing super 'downsizer' scheme that helps over 65's boost their retirement savings will be extended to the 60 and over age group. This will allow older Australia's to make a one-off contribution to their super account worth up to \$300,000 after selling their home, outside of the normal super tax arrangements.
- Removing the work test will further improve the flexibility to make superannuation contributions. This measure will allow those aged 67 to 74 years to make or receive non-concessional and salary sacrificed contributions without meeting the work test, subject to existing contribution caps.

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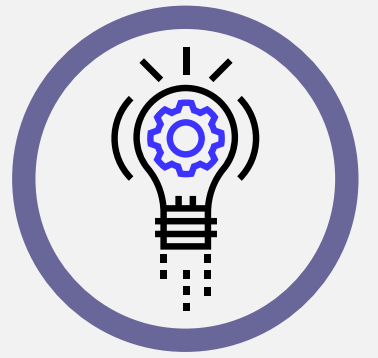


# Health and Aged Care

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- There is a massive \$13.2 billion for the NDIS over the forward estimates in this budget to ensure the scheme remain fully funded. The budget forecasts that the NDIS will cost over \$30 billion by 2024-25. The spotlight on disability funding was shone brightly through the pandemic, with the average payment per NDIS participant increasing almost 50 per cent between 2017 and 2020. The total paid from the NDIS in 2019-20 was \$17.6 billion, however in the first nine months to date of 2020-21, it has already paid out \$16.7 billion.
- The budget includes \$17.7 billion over four years from the whole-of-government on aged care aimed at addressing some of the issues outlined in the aged care royal commission. This includes \$3.9 billion over the forward estimates to increase front line care (mandated at 200 minutes a day) and \$3.2 to support providers with a Basic Daily Fee of \$10 per resident per day. However, the vast majority of this funding is forecast to be spent after the 2021-22 financial year.
- Mental health and suicide prevention remains a key priority for government in the wake of the COVID-19 pandemic. The budget allocates \$2 billion over the forward estimates for mental health, including \$111.2 million to expand high quality digital mental health services.

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# Innovation and Start Ups

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- Digital innovation is a key budget measure for the Morrison Government. This budget provides \$1.2 billion over six years from 2021-22 for the Digital Economy Strategy, aiming at transforming Australia to a leading digital economy by 2030.
- Artificial Intelligence (AI) is the technology of choice for this transformation, with \$53.8 million over the forward estimates allocate to create a National AI Centre and \$33.7 million to provide grants to businesses to work with government to develop AI based solutions to national challenges.
- Additional new measures outlined in the budget include changing tax rules to encourage the use of employee share schemes, and \$18.8 million in refundable tax offsets for Australian digital games businesses. The government argues there are an essential component to attract and retain startups and highly skilled digital workers.



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# Environment

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- This budget confirms the Government's line that Australia is aiming to be net-zero as soon as possible – preferably by 2050.
- The budget allocates \$1.2 billion in disaster funding over the five years from 2020-21, including \$61.1 million to establish the National Recovery and Resilience Agency (NRRA) to lead resilience on a Commonwealth level.
- Also announced is \$209.7 million over the forward estimates to establish the Australian Climate Service to transform the Commonwealth's capacity to respond to extreme weather events.

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# Australia is roaring back...

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We commend budget measures such as the record investment into infrastructure, aged care and the NDIS, providing targeted support for Australia's economic recovery.

We also support measures aimed at incentivising Australian ingenuity and innovation, be it through tax conditions or direct artificial intelligence funding. These are the type of measures which will stimulate the investment that is required for continued growth – particularly growth of nascent sectors where Australia can have a global competitive edge.

As a society we must ensure people aren't left behind and support measures such as the \$1.7 billion investment into childcare and \$1.8 billion for women's economic empowerment. These are measures that allow more workforce participation and go some way towards leveling the playing field for women.

We are well and truly past talking about kickstarting the recovery – Australia is roaring back to life.

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