

sayers

Tuesday, 29 March 2022

# Sayers QuickTake: Budget 2022-23

A pre-election budget designed to boost confidence, investment, and ease the cost of living.

In this budget, Government has clearly signalled its intention to do whatever it takes to support households and businesses in the lead up to a imminent federal election.

The Treasurer has announced a \$628 billion budget with a focus on the cost of living, business growth, and protecting Australia's national interests. Josh Frydenberg's third budget contains massive spending on infrastructure, transport, and health, and defence. It sets a clear agenda for the Morrison Government as it aims to win a second election.

This budget underpins the recovery momentum and should give business and consumers confidence moving into the next financial year.

- 1 Government will spend \$628 billion in 2022-23 resulting in a deficit of \$78 billion
- 2 Real GDP growth will be 4.25% this year, decreasing to 3.5% in 2022-23
- 3 Net debt will grow to \$715 billion (3.1% of GDP) in 2022-23
- 4 Government expects the unemployment rate to fall to 3.8% in 2022-23
- 5 There is landmark investment infrastructure, defence, and cyber security



# Budget measures on a page

## BUSINESS AND TAX



**Small business remains the cornerstone of the COVID-19 economy recovery**

- Halving of the fuel excise to \$0.22/L from midnight on 29 March 2022
- Low and middle income tax offset (LMITO) or 'the lamington' expanded by a further \$420
- Increased tax write offs for small business investing in training and digitisation of up to \$100,000 annually

## INFRASTRUCTURE



**Roads, trains, and water infrastructure all receive new funding for new works and upgrades**

- \$2.7 billion on faster rail from Brisbane to the Sunshine Coast in Queensland.
- \$1.0 billion on the Sydney to Newcastle faster rail upgrade in NSW
- Water infrastructure is also a big winner in this year's budget with \$5.4 billion provided for the Hells Gate Dam in Queensland

## INNOVATION



**Government is supporting new start-ups and scale-ups to stay in Australia and create jobs**

- Introduction of a re-vamped employee share scheme
- \$9.9 billion over 10-years for space and space technology
- Over \$500m to accelerate commercialisation of innovation from the university sector

## COMMUNITY



**Cost of living becomes a key priority for Government as it enters election season**

- Introduction of a one-off \$250 cash payment to eligible Australians
- New funding for women's safety and domestic violence services
- Simplification of the 20-week paid parental leave scheme allowing for greater flexibility

## ENVIRONMENT



**Energy, climate change, and protecting the reef are all essential focus areas**

- An additional \$1 billion for protection measures of the Great Barrier Reef
- \$60 million to modernise Australia's recycling industry
- Support for carbon farmers to simplify the creation of and reporting on projects

## HEALTH



**Aged care remains a key priority and large scale COVID-19 response will continue to be required for years to come**

- \$174 million on new PBS listings (e.g. for new cancer treatments)
- New funding for aged care workforce training (including in regional areas)
- \$2.6 billion to be spent on the procurement of RATS and other PPE



## FEDERAL BUDGET 2022-23

# Key points

- Tonight, Treasurer Josh Frydenberg has promised “we will deliver” with a big spending budget aimed at building momentum and a cohesive narrative for the upcoming federal election.
- The Government will spend \$628 billion in 2022-23, resulting a deficit of \$78 billion (3.4 per cent of GDP) for the financial year. Total spending is only 5 per cent lower than last years Budget.
- Net debt will grow to \$715 billion (31.1 per cent of GDP) in 2022-23. Government will spend around \$15 billion (0.7 per cent of GDP) on this debt in 2022-23.
- Treasury has forecast GDP growth of 4.3 per cent for 2021-22 and 3.5 per cent in 2022-23.
- Unemployment is set to decrease from 4.0 per cent this year to 3.8 per cent next year. Treasury expects these conditions to last until 2024-25.
- The fuel excise will be halved for 6-months. This will save Australians 22 cents a litre on petrol from midnight on 29 March at a cost of \$2.9 billion to the budget.
- There is a one-off \$250 ‘cost of living’ cash splash for 6-million low income Australians.
- The low and middle income tax offset (also known affectionally at ‘the lamington’) will be expanded in the 2021-22 financial year by \$420. This will increase the maximum tax rebate to \$1,500 for individuals and \$3,000 for couples.

## Underlying cash balance, FY12-FY26 (forecast)



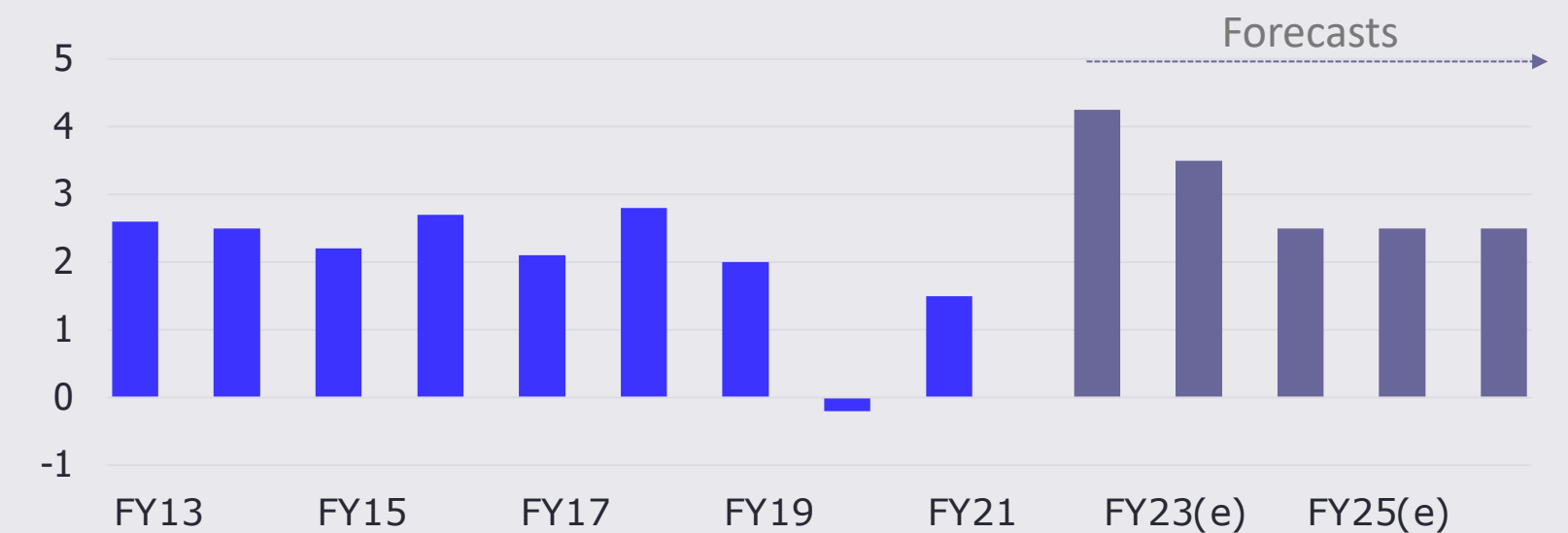


## FEDERAL BUDGET 2022-23

# Australian economy

- It has only been 10-months since the last Commonwealth Budget in May last year. This year, we see an economy with a tight labour market (unemployment is already at 4 per cent) and favourable economic conditions compared to OECD peers.
- The financial impacts of the COVID-19 pandemic has taken a backseat to urgent pressures including the cost of living, fires and floods, and a deteriorating international security environment.
- Australia's economic gains are amplified in the forward estimates with GDP growth forecasted to be 4.3 per cent this year, gradually returning to trend of 2.5 per cent in 2023-24 and remain at that level throughout the forecast period.
- The labour market is recovering strongly, and the unemployment rate is forecast to fall to 3.8 per cent in 2022-23 and remain at that level for three years. This would be the lowest unemployment rate in Australia in 50 years.
- Cost of living pressures are the talk of the town. Inflation (currently sitting at 3.5 per cent in year on year terms) will grow to 5.1 per cent by the end of the financial year and remain high (between 3.8 and 4.0 per cent over the forward estimates).
- When will Australians see a pay rise? The answer is soon – but it likely won't outstrip inflation. The wage price index is set to rise 2.75 per cent this year, increasing to 3.5 per cent over the forward estimates.

Real GDP growth (%), FY13 – FY26 (forecast)



Unemployment rate (%), FY13 – FY26 (forecast)



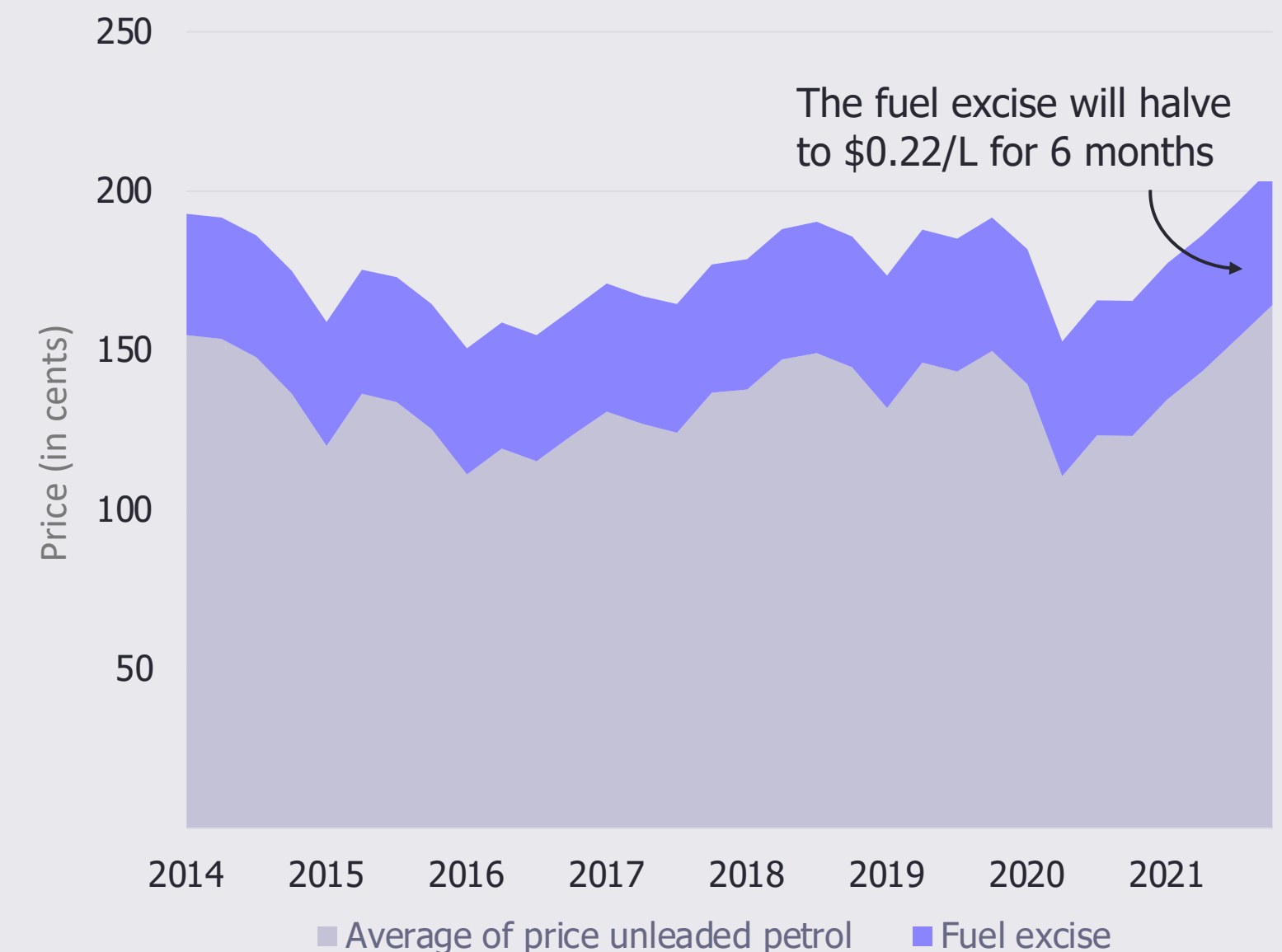


## FEDERAL BUDGET 2022-23

# Case study: Fuel excise

- The Russian invasion of Ukraine has seen fuel prices rise, adding to already mounting cost of living pressures for households and businesses.
- The problem with rising fuel prices is that it increases the cost of goods in the economy that rely on manufacturing or transport – which is pretty much everything. In fact, shipping prices today are 5 times higher than they were pre-pandemic.
- In a move which is sure to please the electorate, the Government has implemented a targeted cut to the fuel excise. This excise is a product tax (currently set at \$0.44/L) that is added to fuel at the bowser.
- Under this budget, the fuel excise will be halved for 6-months. This will save Australians 22 cents a litre on petrol from midnight on 29 March at a cost of \$2.9 billion to the budget.
- What does this mean for the average road user? If you have a mid-size car (on average a 40-litre tank), this excise cut will save you around \$10 a tank. Assuming you fill up around once a week, this will save you around \$250 over the 6-month period.
- However, the budget stresses this is a temporary measure that is in response to geopolitical and macroeconomic forces. Be prepared for the excise to go back up to \$0.44/L (plus indexation) in September.

## Fuel price and excise, 2014-2021



Source: Australian Bureau of Statistics, Consumer Price Index





## FEDERAL BUDGET 2022-23

# Business and tax

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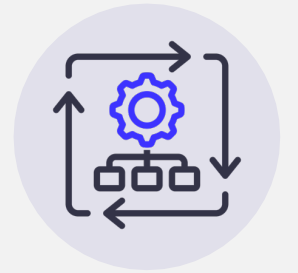


- The low-and-middle-income tax offset (LMITO) will be expanded this year. Originally released by the Morrison government in the 2018 budget, 'the lamington' as it is affectionally known, was designed as a short-term tax break for working Australians.
- While the Treasurer has confirmed that the lamington is indeed a short term fiscal measure, scrapping the lamington before the legislated stage-3 tax cuts come into effect would result in an effective tax hike for low- and middle-income earners. In this budget we see the lamington increased in the 2021-22 finance year by \$420. This will increase the maximum tax rebate to \$1,500 for individuals and \$3,000 for couples. This policy measure alone is expected to cost the government \$3.9 billion in revenue in 2022-23. Consistent with the current policy settings, taxpayers with incomes of \$126,000 or more will not receive the additional \$420.
- While the Government has chosen to leave the marginal tax rates in personal income unchanged (which will result in bracket creep under high inflation conditions), this budget does adjust the Medicare levy threshold to ensure tax affordability for low-income earners.
- This Budget shows strong support for small business owners, with tax deductions in place for training new employees. For every \$100 a small business spends on training, the business will be eligible for a \$120 tax deduction.
- Small businesses will also benefit with \$120 tax refunds for every \$100 spent on cloud computing, e-invoicing, and cyber security activities.
- This Budget also includes \$4.6 million over 2 years from 2021-22 to support the *New Access for Small Business Owners* program delivered by Beyond Blue to continue to provide free, accessible, and tailored mental health support to small business owners.



FEDERAL BUDGET 2022-23

# Infrastructure



- Infrastructure is the life-blood of our nations economy. It provides the facilities, transport networks, and security that Australians need to live, work, and play.
- The Government will increase it's 10-year infrastructure pipeline to \$120 billion with an additional \$17.9 billion committed to road, rail, and community infrastructure projects across Australia.
- This Budget includes big spending initiatives in road and rail including:
  - \$3.1 billion for the Melbourne Intermodal Terminal to increase efficiency and capacity of the freight industry
  - \$2.7 billion on faster rail from Brisbane to the Sunshine Coast in Queensland
  - \$2.3 billion for the North-South Corridor road project in South Australia
  - \$1.0 billion on the Sydney to Newcastle faster rail upgrade in NSW
  - \$678 million to improve the road surface along 1000km of the Outback Way in QLD
- Water infrastructure is also a big winner in this year's budget with \$5.4 billion provided for the Hells Gate Dam in Queensland.
- Joint funding agreements are back in vogue. This budget includes the announcement that the Commonwealth will provide \$680 million to South East Queensland under the SEQ City Deal over the next 11 years. Project approvals will be dependant on the Queensland State Government and applicable councils.
- The mobile blackspot program has been expanded, with \$812 million provided to address mobile blackspots along 8,000 kilometres of regional transport routes.



## FEDERAL BUDGET 2022-23

# Innovation

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- In good news for start-ups, the Government will expand access to employee share schemes so that early employees can share in the equity of the businesses they help to build. Employees in unlisted companies will be able to invest up to \$30,000 per participant per year (unexercised) for up to 5 years, plus 70 per cent of dividends and cash bonuses.
- In a boost for our cyber-security, computer science, and intelligence workforce, Government has announced \$9.9 billion over 10-years to deliver a 'Resilience, Effects, Defence, Space, Intelligence, Cyber, and Enablers' funding package. With the convenient acronym 'REDSPICE', this initiative will significantly enhance the offensive and defensive cyber and intelligence capabilities of the Australian Signals Directorate (ASD). This is expected to create 1,900 new jobs over the coming decade.
- R&D commercialisation remains a clear policy priority for the Morrison Government. This years budget includes \$505 million over 5 years from 2021-22 to establish Australia's Economic Accelerator (AEA). This will be a grant funding organisation to support university research from proof-of-concept through to commercialisation. The AEA is likely to favour on-shore manufacturing technology.
- The space race is back on – with this Budget providing \$1.3 billion from 2021-22 to grow the space sector and space manufacturing capabilities. While the Government claims the official spending figures are commercial-in-confidence, we know that \$1.2 billion will be spent in this financial year to establish a *National Space Mission for Earth Observation*. This initiative will secure access to key earth observation data and collaborate with international partners on satellite technology.





## FEDERAL BUDGET 2022-23

# Community



- The cost of living is on the mind of all Australians. This budget sees a one-off \$250 'cost of living' cash splash for 6-million low income Australians. This will be paid automatically through existing welfare channels. This payment will be made in April 2022, costing the budget \$1.5 billion in the 2021-22 financial year.
- Women's safety and security are a clear priority for the Morrison government in this years budget. Government will provide \$1.3 billion (albeit over 6 years form 2021-22) for new measures to reduce all forms of family, domestic, and sexual violence (FDSV). Specific measures include:
  - \$129 million for trauma informed national counselling services
  - \$48 million in 2022-23 aimed at early intervention for boys and men
  - \$240 million (from 2023-24) to extend funding for the Escaping Violence Payments which provides financial support of up to \$5,000 for women leaving a violent relationship
- Home ownership, particularly for young Australians will be partly addressed through this year Budget. Government will increase the number of guarantees under the Home Guarantee Scheme to 50,000 for three years (starting next year) allowing homebuyers to enter the market with a deposit of around 5 per cent.
- The importance of flexibility in balancing work and family has been highlighted in this Budget with an announcement that Dad and Partner Pay will be rolled into a single *Parental Leave Pay* scheme. This will see working parents share in up to 20-weeks of paid parental leave taken as they see fit over the first 2 years of a child's birth or adoption. This is expected to benefit around 180,000 new parents.
- It seems this government is keen to improve its track record on disaster response and recovery, with the implementation of a new cells broadcast messaging system in partnerships with the state and territory governments. This will ensure critical, time-sensitive information can be provided to the public in the event of a disaster.
- Supporting communities affected by recent flooding in South-East Queensland has also been highlighted in this years budget. Around \$245 million in disaster recovery payments are expected to be made in relation to the flooding in February and March 2022. A further \$150 million from the Governments Emergency Response Fund has been allocated to post-disaster resilience measures in the Northern Rivers region of NSW. In total, the Government expects to spend \$6 billion on disaster relief and recovery as a result of the floods.



## FEDERAL BUDGET 2022-23

# Environment

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- The Great Barrier Reef is to receive an additional \$1 billion to advance marine science and climate adaptation technology.
- New funding of \$200 million will support an expansion of the Environment Restoration Fund for the recovery and conservation of koala habitats.
- Over \$60 million will be spent on boosting the Recycling Modernisation Fund to leverage investments into new advanced plastic recycling technologies.
- The Budget reports that Government remains committed to achieving net zero carbon emissions by 2050. This Budget introduces changes to the Emissions Reduction Fund (ERF) to give greater flexibility for carbon farmers to sell their carbon credits into the private market. An additional \$47.3 million will be invested in new technology that saves carbon farmers time and money on project audits and manual reporting.
- The coalition has shown their resolve to support the agricultural sector's ambition of being a \$100 billion industry by 2030. New measures were announced to improve biosecurity, combat weeds and disease, and promote agribusiness both domestically and overseas.
- Australia's forestry industry is also set for a boost, with \$86 million allocated over 5 years to establish new timber supply sources. This will be delivered in partnership with the States and Territories.



## FEDERAL BUDGET 2022-23

# Health

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- COVID remains an important item for Government expenditure, with Government spending \$892 million over the next 2 years to continue the health response to the COVID-19 pandemic. This funding package includes \$20 million for the extension of telehealth appointments for COVID-positive patients.
- If we have learnt anything in these first few months of 2022, it's that Rapid Antigen Tests (RATs) don't come cheap. Government will spend \$2.6 billion over the next 2 years on the procurement of RATs and PPE. Concession card holders will be eligible for 20 free RATs over the 7-month from 31 July this year.
- In response to the aged care inquiries and Royal Commission, Government is allocating \$468 million to improve transparency and regulatory standards in the aged care sector. One of these measures includes \$33 million over the forward estimates to provide additional clinical placement for students in support sectors, and to expand rural health training programs into new support locations.
- New listings on the Pharmaceutical Benefits Scheme (PBS) and other medicine subsidies will cost the budget \$2.4 billion over the next 5 years. \$174 million will be spend on new PBS listings in 2022-23, including the listing of Trodelvy to treat rare forms of breast cancer (formally at a cost of \$80,000 per treatment).
- Mental health remains a key policy focus for Government, with the Treasurer announcing in his speech 'no Government has invested more in mental health services'. This Budget includes \$547 million over 5 years (and \$99m in 2022-23) for implantation of the Stage 2 reforms of the National Mental Health and Suicide Prevention Plan. There is also a focus on the mental health of young Australians with \$207 million set aside over 3 years to ensure continued access to services for severe mental illness.

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