October 2020

FEDERAL BUDGET 2020 REPORT FOR INDUSTRY

The Real Media Collective

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The effect of COVID-19 on Australia's economy and society has been significant. This year's budget was delayed six (6) months to determine the fallout caused by COVID-19 and ensure the budget was developed to assist the economy across it's most critical pain points. This budget was tipped to be like none other we have seen, and that has come to pass. The delivered budget has created a deficit of $213 billion for 2020-21, and is predicted to take more than a decade before the budget returns to balance.

NAB Group Chief Economist Alan Oster stated "It was one of the most stimulatory budgets we've ever seen – but not unexpected, featuring tax breaks for individuals and businesses". Chris Richardson, Partner, Deloitte Access Economics predicted, "the budget will still be running big deficits, but that will be because the economy is still weak….That says we need to remain laser focused on economic repair. If our economy gets better, then the budget will too." In short, this budget has been well received by economists and commentators across the country.

The Real Media Collective also welcomes the budget with its strong focus on business which will benefit our membership and industry. Some initiatives will directly benefit members and their employees, while others will have a beneficial flow on effect aross customers and the industry supply chain.

The following report is an overview of the 2020 Budget with a clear focus on the aspects most relevant to The Real Media Collective members and industry sectors we represent within our Charter.

BACKGROUND

The global COVID-19 pandemic has resulted in Australia's first recession in almost thirty (30) years.

Record-low interest rates have severely limited the scope for monetary policy to support the economy. Tuesday's 6 October budget has confirmed changes in the government's fiscal policy direction from budget surplus and debt reduction to support and recovery.

The government has stated that this budget's fiscal support measures are aimed at boosting GDP and to reduce unemployment. They have forecast a strong economic impact from these measures.

As part of the government's principles behind this budget and their recovery plan, as well as in addition to the business initiatives and investments, is the view that lowering personal tax rates will further stimulate economic growth through a virtuous cycle approach.

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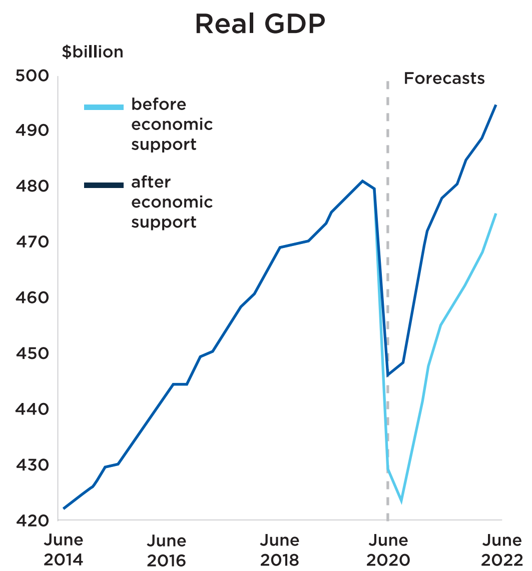
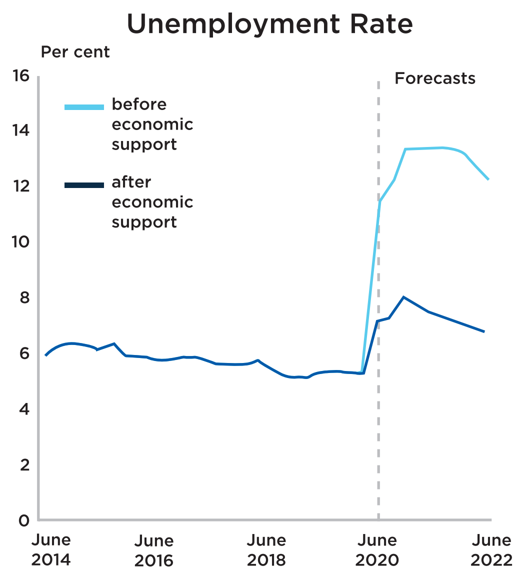
Treasury analysis indicates that government economic support measures since the onset of the pandemic, totalling $257 billion, are expected to result in economic activity being 4½ per cent higher by 2021-22 as outlined and illustrated in the following chart.



Source: ABS Australian National Accounts: National Income, Expenditure and Product and Treasury, 2020.



Source: ABS Labour Force, Australia and Treasury, 2020.

Further, Treasury analysis indicates that without the government's economic support, the unemployment rate would have risen, and remained, above 12 per cent throughout 2020-21 and 2021-22 as outlined and illustrated in the chart above.

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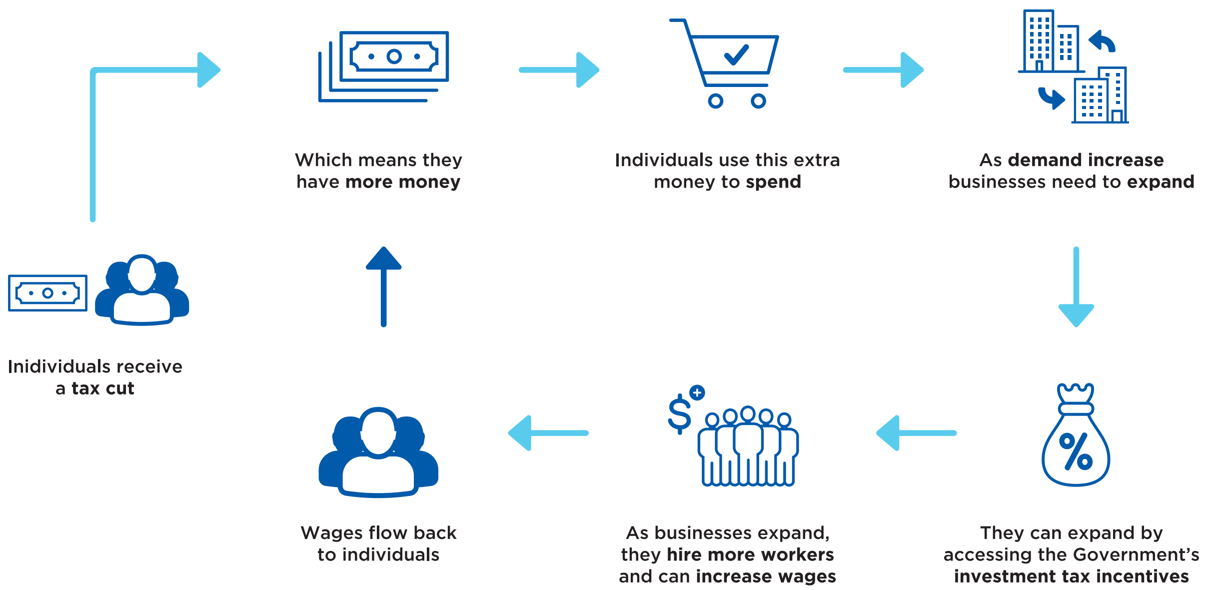
As part of the government's principles behind this budget and their recovery plan, as well as in addition to the business initiatives and investments, is the view that lowering personal tax rates will further stimulate economic growth through a virtuous cycle approach.

VIRTUOUS CYCLE OF THE ECONOMY



Source: Australian federal government, 2020.

BUSINESS AND INDUSTRY INITIATIVES

MODERN MANUFACTURING STRATEGY

The government has announced its Modern Manufacturing Strategy as part of its recovery plan for the economy. This strategy will see government invest $1.5 billion over five (5) years to improve competitiveness, scale and resilience in Australian manufacturing. The strategy will focus on six (6) areas: resources technology and critical minerals processing, food and beverages; medical products, recycling and clean energy, defence and space.

The strategy includes: $1.3 billion to establish the Modern Manufacturing Initiative; $107.2 million for supply chain resilience, $52.8 million for manufacturing modernisation, $30 million to improve competitiveness, and $20 million to Industry Growth Centres.

For consideration

Although not directly targeted to our industry, the execution of this strategy will have beneficial flow on effects for every sub-sector of our industry. In addition, The Real Media Collective in collaboration with Australasian Paper Industry Association and Visual Connections have been part of the government's Waste Export Consultation, securing a four (4) extension on the export of printed paper waste. In recent months The Real Media Collective has established a taskforce and developed partnership with academics and technical experts to build an industry leading solution which will align strongly with recycling commitments within the Modern Manufacturing Strategy. The Treasurer's comments within his Budget night speech and the Budget in the regard were highly welcomed.

TEMPORARY FULL EXPENSING AND EXTENDING ASSET WRITE-OFF.

One of the biggest opportunities for members announced in this budget is the instant asset write off aimed at encouraging business investment and supporting cash flow. The Government will support businesses with aggregated annual turnover of less than $5 billion by enabling them to deduct the full cost of eligible capital assets acquired from 7:30pm AEDT on 6 October 2020 and first used or installed by 30 June 2022.

Full expensing in the year of first use will apply to new depreciable assets and the cost of improvements to existing eligible assets. For small and medium sized businesses (with aggregated annual turnover of less than $50 million), full expensing also applies to second-hand assets.

Businesses with aggregated annual turnover between $50 million and $500 million can still deduct the full cost of eligible second-hand assets costing less than $150,000 that are purchased by 31 December 2020 under the enhanced instant asset write-off. Businesses that hold assets eligible for the enhanced $150,000 instant asset write-off will have an extra six months, until 30 June 2021, to first use or install those assets.

Small businesses (with aggregated annual turnover of less than $10 million) can deduct the balance of their simplified depreciation pool at the end of the income year while full expensing applies. The provisions which prevent small businesses from re-entering the simplified depreciation regime for five years if they opt-out will continue to be suspended.

BUSINESS AND INDUSTRY INITIATIVES

LOSS CARRY-BACK

At the same time, and in an effort to boost cash flows, the government has announced temporary tax relief for businesses by allowing eligible companies (with an aggregated turnover of less than $5b) to carry-back tax losses made in the 2020 to 2022 income years to offset tax paid on profits from the 2019 income year onwards. This refunding of tax previously paid to the ATO when a loss is subsequently incurred is described as a ‘loss carry-back’. However, **any losses carried back cannot exceed taxed profits from an earlier period and must not generate a franking account deficit.**

For consideration

With the removal of any write-off thresholds, this is a substantial increase and expansion to the instant asset write off threshold of $150,000 announced by the Government in March 2020 as a stimulus and tax-relief measure in response to COVID-19.

This means print members can invest in new and upgraded equipment with 100% write-off, publishers can look to IT and e-commerce investment and have immediate financial year benefit.

The provisions for loss carry-back provisions will provide tax relief for businesses and temporarily adjusts/flips current tax utilisation provisions where only prior tax year losses could be used to reduce future tax profits.

Nonetheless, these two measures combined are estimated to deliver $31.6 billion in tax relief to businesses over the forward estimates period. Treasury estimates that these measures will boost GDP by around $2.5 billion over 2020-21 and $10 billion over 2021-22 and create an additional 50,000 jobs by the end of 2021-22.

VICTORIAN COVID-19 BUSINESS SUPPORT GRANTS

The government has announced that business support grants received by SME’s will be treated as non-assessable, non-exempt income (NANE income). The measure is currently applicable for any grant payments received by Victorian businesses under the ‘Business Resilience Package’ announced by the Victorian government.

Grant payments that are not identified by the government as eligible payments under this measure will continue to be treated as taxable income. **Eligibility to treat grant payments announced by States and Territories as NANE income will be determined on an application basis, and will be restricted to grant programs announced on or after 13 September 2020 in relation to payments made from 13 September 2020 to 30 June 2021.**

For consideration

Although limited to supporting grants delivered to Victorian businesses under the Business Resilience Program, this announcement will help to ensure those Victorian businesses that have been adversely affected by COVID-19 retain the full amount of any grant received.

BUSINESS AND INDUSTRY INITIATIVES

SMALL TO MEDIUM SIZED BUSINESSES

The increase in the $10M to $50M turnover threshold for small business tax concessions.

The increase in the turnover threshold for small business tax concessions is, in some ways, a welcome change that has been sought for years. It now means that most Australian private businesses will qualify for a range of tax concessions that simplify their tax compliance.

But don't expect to see an immediate financial benefit. Most SME businesses will find benefit from only a small number of the concessions, and the benefit is more likely to be a saving in compliance costs rather than a reduction in your tax liability.

The real benefit will be seen in future years if future Governments commit to maintaining the $50M turnover threshold for new tax concessions that they announce, and if they continue to work to use this simpler and more generous eligibility test for a broader range of tax concessions.

FRINGE BENEFIT TAX (FBT)

From 2 October 2020, the Government is providing a broader FBT exemption for expenditure on retraining and reskilling activities. The FBT exemption will apply to expenditure to retrain and reskill employees for redeployment in a different role within the business, or to prepare them for their next career.

The exemption will not extend to retraining expenses incurred under a salary packaging arrangement or training provided through Commonwealth supported places at universities, which already receive a benefit.

Employers will be able to use existing corporate records for FBT purposes, rather than have to obtain additional prescribed records such as employee declaration.

Currently, the FBT legislation prescribes the form that certain records must take and forces employers, and in some cases employees, to create additional records in order to comply with FBT obligations.

The measure will allow employers who already maintain adequate alternative records to rely on those existing records, removing the need to complete additional records. This will reduce compliance costs for employers, while maintaining the integrity of the FBT system. The Commissioner of Taxation will be responsible for determining what are adequate alternative records.

The exemption is proposed to apply from 1 April 2021, subject to the timing of royal assent for the enabling legislation.

BUSINESS AND INDUSTRY INITIATIVES

INSOLVENCY REFORMS

Whilst previously announced, it is worth noting the government will implement insolvency reforms to help small businesses survive the economic impact of the COVID-19 pandemic. These measures will commence on 1 January 2021, subject to the passing of legislation. The package of reforms features three key elements:

1. A new formal debt restructuring process for small businesses to provide a faster and less complex mechanism for financially distressed but viable firms to restructure their existing debts, maximising the chance of them surviving and contributing to economic and jobs growth. Under the new process, incorporated businesses with liabilities of less than $1 million will be able to keep trading while they develop a debt restructuring plan, which is ultimately voted on by creditors. About 76 per cent of companies entering into external administration in 2018-19 had less than $1 million in liabilities, about 98 per cent of which have less than 20 full-time employees.

2. A new, simplified liquidation pathway for small businesses to allow faster and lower-cost liquidation, increasing returns for creditors and employees. The process would be accessible to incorporated businesses with liabilities of less than $1 million (the same threshold that would apply to the new debt restructuring process). The simplified liquidation process will retain the general framework of the existing liquidation process, with modifications to reduce time and cost. Time and cost savings will be achieved through reduced investigative requirements, requirements to call meetings, and reporting functions.

3. Complementary measures to ensure the insolvency sector can respond effectively both in the short and long term to increased demand and to the needs of small business. In this regard, the Government is introducing a number of permanent and temporary measures to expand the availability of insolvency practitioners to deal with the expected increase in the number of businesses seeking to restructure or liquidate.

DIRECTOR IDENTIFICATION NUMBER (DIN)

Directors of companies and other bodies corporate will be required to apply for a permanent, unique director identification number (DIN). Each director will keep this identifier, even if they cease to be a director, and the same identifier will not be re-issued to any other person

The DIN system is aimed at targeting illegal phoenixing activities (which occur when the controllers of a company avoid paying liabilities by shutting down a company and transferring its assets to another company), and provide traceability of a director's relationships across companies.

The estimated annual cost of phoenixing to the Australian economy is between $2.9 billion and $5.1 billion.

The DIN system is expected to be operating from early 2021.

BUSINESS AND INDUSTRY INITIATIVES

COMMONWEALTH BUSINESS REGISTRY

The Government will invest an additional $419.9 million to fund the introduction of the Modernising Business Registers (MBR) program, which will transfer over 35 existing business registers (such as the Australian Business Register, and the ACN Register) to a single modernised platform.

The platform is designed to streamline interactions with government by centralising the location of all business registry data, and to make the registers more user-friendly.

The new platform is expected to be operating from 2021.

MANAGED INVESTMENT FUNDS

Generally, the Managed Investment Trust ("MIT") withholding tax is imposed at a rate of 30% where the taxpayer is not a resident of an information exchange country, or 15% where the taxpayer is a resident of an information exchange country.

Under the MIT withholding tax provisions, foreign residents are liable to income tax on an amount specified as the "fund payment part". This concept broadly includes the net income of a MIT from Australian sources, excluding dividends, interest, royalties and capital gains or losses from CGT assets that are not taxable Australian Property.

Information exchange countries are those that have an established legal relationship with Australia, which facilitates the sharing of taxpayer information with the aim of safeguarding Australia against offshore tax avoidance.

Under the 2021 Federal Budget measures, the list of information exchange countries eligible for the reduced MIT withholding tax rate will be updated to include the Dominican Republic, Ecuador, El Salvador, Hong Kong, Jamaica, Kuwait, Morocco, North Macedonia and Serbia; with Kenya being removed from the list.

The updated list is proposed to be effective from 1 July 2021.

EMPLOYMENT INITIATIVES

JOBMAKER HIRING CREDIT

The announced scheme will be available to employers for each new job they create in the next twelve (12) months for which they hire an eligible job seeker aged 16–35 years old who are on, or have been on, Youth Allowance, Parenting Payment or JobSeeker for at least one (1) of the previous three (3) months. Employers will be subsidised $200 a week for twelve (12) months if their new hire is between 16-29 years old, or $100 if they are between 30-35 years old.

Under this scheme each newly hired employee must work at least twenty (20) hours per week, and all businesses except for the major banks will be eligible. Employers will have to demonstrate they have increased their overall employment to receive the hiring credit (verifiable via reporting through Single Touch Payroll). At a cost of $4bn from 2020-21 to 2022-23, the scheme aims to support 450,000 positions for young Australians.

JOBTRAINER FUND

As part of its previously announced JobTrainer Fund, the government has committed $1.2 billion to subsidise up to 50% of interns, trainees and apprenticeships across the country with specific mention of IT, Teaching, Nursing and other industries offering businesses strong income support.

The government has forecast this initiative will support up to 340,700 free or low-fee training places for retraining and upskilling.

Additionally, some $252m will also be invested over two (2) years to help deliver 50,000 higher education short courses in areas including teaching, health, information technology, science and agriculture.

APPRENTICESHIP AND TRAINEESHIP WAGE SUBSIDY

Prior to the release of the budget, the federal government had announced a $1.5 billion wage subsidy that would pay 50% of salaries of new apprenticeships and trainees for twelve (12) months from 5 October. Trainees and apprentices who are put on the books from 5 October will have half their wages paid by taxpayers for twelve (12) months.

This proposal is a continuation of the 'Supporting Apprentices and Trainees Wage Subsidy' implemented as part of the government's response to COVID-19. The subsidy is aimed at school leavers and older workers who are retraining, and government believes the scheme could create 100,000 jobs.

EMPLOYMENT INITIATIVES

For consideration

Although The Real Media Collective welcomes these proposals, there will need to be the work levels within the industry to make these announcements useful and viable for our members. There will also need to be sustainability created beyond the initial twelve (12) months subsidy period to ensure businesses are not exposed and/or new employees not able to be provided a strong future of employment. Further, attracting apprentices generally, and to our industry specifically, has been a perennial issue for the last twenty (20) years which has seen the industry burdened with higher salary levels to entice solid talent.

WOMEN'S ECONOMIC SECURITY STATEMENT

In 2018 the Government released the first 'Women's Economic Security Statement'. The Statement focused on improving opportunity and choice for women in the workplace and broader society. Prior to COVID-19 women's participation was at record highs. Australian women have been recognised as the hardest hit of our workforce from the challenges of COVID-19.

Backed by $240m in funding, the updated statement aims to deliver opportunities for women through its five priorities:

- repair and rebuild women's workforce participation and further close the gender pay gap;
- greater choice and flexibility for families to manage work and care;
- support women as leaders and positive role models;
- respond to the diverse needs of women; and
- support women to be safe at work and home.

Programs delivered under the Statement will include a $50m Women@Work Plan to address barriers to participation, including a Respect@Work Council to address workplace sexual harassment; and $35.9m to provide women entrepreneurs with access to expert mentoring and business advice.

Further, $25.1 million has been allocated over five (5) years from 2020-21 to establish a Women in Science, Technology, Engineering and Mathematics (STEM) Industry Cadetship program to support five (5) hundred women entering and working in STEM industries to complete an Advanced Diploma.

For consideration

The Real Media Collective, in partnership with our secretariat support of Women in Print, welcomes these initiatives and proposed programs for recognising the effects of COVID-19 on women and their employment, and for supporting the beneficial investment in women's economic capability and leadership into the future.

PERSONAL INCOME TAX INITIATIVES

PERSONAL INCOME TAX

In 2018 the government introduced the 'Personal Income Tax Plan', and this year it has accelerated its aims by reducing income tax levels. As a result, approximately 11.5 million taxpayers will receive a tax-cut backdated to 1 July.

In this budget, the Government has announced an additional $17.8 billion in personal income tax relief, including an additional $12.5 billion over the next twelve (12) months. It builds on the $8.1 billion in tax relief that is being delivered for the 2020-21 income year under the already legislated plan. Under the changes, government will bring forward the tax cuts in Stage 2 of its plan, as well as a one-off additional benefit from the low- and middle-income tax offset in 2020-21.

In 2020-21, low- and middle-income earners will receive tax relief of up to $2,745 for singles, and up to $5,490 for dual income families, when compared with 2017-18 settings. Around 11.6 million individuals will receive a tax cut in 2020-21, compared with 2017-18 settings. The majority of the benefit for 2020-21 will go to those on incomes below $90,000.

Treasury has estimated that reducing personal income tax will boost GDP by around $3.5 billion in 2020-21 and $9 billion in 2021 22 and will create an additional 50,000 jobs by the end of 2021-22.

For consideration

Personal income tax cuts are welcomed, particularly for lower income earners who will benefit immediately and are more likely to put those dollars back into the economy as 'COVID-19 normal' society commences.

SUPERANNUATION FUNDS

Also affecting employers and employees, the 'Your Future, Your Super' package aims to improve the superannuation system by having super funds 'follow' employees when they change jobs, and alsoprovide a new ATO comparison tool for employees.

The proposed rules will get tighter on superannuation funds. The Australian Prudential Regulation Authority (APRA) will benchmark superannuation products annual net investment performance and will hold fund Trustees accountable for that performance. Underperforming products may be restricted from taking on new members.

For consideration

Although improvements to the superannuation system are welcomed, the detailed structure of this proposal remains to be seen on how superannuation funds will manage the additional regulation following a recent Royal Commission which increased existing regulatory compliance measures.

ENVIRONMENT

RECYCLING MORE WASTE

Given the governments waste export ban of plastic, paper, tyres and glass an investment of $250 million dollars has been allocated to grow Australia's waste and recycling capability. This includes $10m to support industry-led projects through including through 'Cooperative Research Centres' to develop innovative solutions for recycling and reuse.

For consideration

The Real Media Collective and APIA were particularly pleased to hear the Treasurer reference a budget allocation to the Waste Export program which was a lobbying submission we worked heavily across last year with a successful outcome for the industry and have been working over the past three months very closely with the Minister's Office. We have developed a Member Taskforce with academic and technical partners to develop a solution for print paper waste that will now be supported under the budget as well as provide our industry a globally leading print paper recycling solution. Our submission in this regard can be viewed – Waste Export Ban Submission, 2019.

IN CONCLUSION

CONCLUSIONARY COMMENTS

The budget projections and forecasts appear centred on a business lead recovery with most steps and proposals aimed to boost business confidence. Overall the budget is one that provides solid support to businesses as we move into the recovery phase and a complementary follow-on from the already implemented economic stimulus from federal government. From this point forward, it will be the execution of the budgetary initiatives that tests the economy and the government.

KEY TAKEOUTS AND WHAT TO DO LIST

1. INSTANT ASSET WRITE-OFF

Businesses will receive a full tax deduction for the cost of any new asset they acquire from now through until 30 June 2022 (or to 30 June 2021 for second-hand assets).

- Review and plan your capital expenditure,
- If your business sells depreciable assets, or provides services to those businesses (e.g. engineers), engage with your customers without delay.

2. LOSS CARRY BACK

Businesses that make tax losses in FY20, FY21 or FY22, but have paid tax in FY19 or later years, will be able to "carry back" the tax losses and get a refund of the tax paid in the earlier years. Planning around the impact on franking account balances and dividend payments will be critical.

- Review your FY20 tax position – is it likely to be a loss?
- The refund can't be obtained until the FY21 (or FY22) tax return is lodged, so focus on PAYG Instalment variations in the interim.

3. JOBKEEPER AND JOBMAKER

The Budget implies that JobKeeper arrangements will cease on 28 March 2021, and the new job support payments for businesses are much less financially generous. Under the new JobMaker system, a subsidy is available for new apprentices, and for hiring new employees aged 16 – 35 who have previously been on JobSeeker or similar benefits.

- Review your JobKeeper eligibility for the December 2020 quarter and the March 2021 quarter,
- Assess the impact that the cessation of JobKeeper will have on the profitability and cashflow of your business, and
- Assess your eligibility for the new JobMaker subsidies.

IN CONCLUSION

4. ECONOMIC STIMULUS MEASURES

The Budget includes a range of spending initiatives in areas such as manufacturing, research, roads, infrastructure and residential construction. This will directly benefit SME businesses in these industries, and indirectly benefit businesses that supply into these industries.

- Consider how your Business can be positioned to take advantage of the unprecedented level of Government spending that will occur now and over the coming years.

5. CASHFLOW FORECASTS

The Budget is built on the assumption that a COVID-19 vaccine will be available by the end of 2021, that we won't see more widespread outbreaks, that state borders (other than WA) will open by Christmas and that business conditions will move from recessionary to growth. COVID-19 support measures will be made more targeted, and much more limited. Many existing payment deferral arrangements are now coming to an end.

- Cash flow management over the coming months is going to be critical,
- Build a robust cashflow forecast,
- Consider how to fund the growth phase of your business, but balance this with managing cash in uncertain economic conditions,
- Plan for the cash flow impact on deferral arrangements (such as tax instalments) and the normalisation of the timing of future payments.

ACKNOWLEDGEMENTS AND REFERENCES

ACKNOWLEDGEMENTS

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Acknowledgement to The Real Media Collective Board, Executive Committee and Members who have tirelessly worked to navigate through a difficult time for their own businesses and organisations but also provided time, support and contribution to the requirements of the The Real Media Collective Team, Membership and Industry.

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