MAY 2023

MAY 2023 AUSTRALIAN BUDGET INDUSTRY REPORT

Print and Visual Communication Association of Australia

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INTRODUCTION & BACKGROUND

This week Treasurer Jim Chalmers delivered his governments first full budget at its usual May timetable. The speculation is over and the Albanese government appears to have walked the tightrope and delivered a short term $4.2B surplus. The government has delivered a restrained budget in line with economic challenges of high inflation and low growth forecasts.

Prior to Tuesday nights budget speech, Treasurer Chalmers indicated this budget would improve the budgetary bottom line through allocating increased tax receipts towards paying down government debt. Once again, much of the better than expected financial position is due to revenue gains from increased commodity prices along with higher tax collections from increased labour participation and therefore lower welfare payments. Further, Finance Minister Katy Gallagher said the government had identified $17.8B in spending it would re-prioritise as part of funding allocation. Additionally, this budget allocates $14.6B across various components in targeted and temporary cost of living relief, but claims this would not detrimentally impacting inflation.

Leading into this year's budget, PVCA were seeking various measures:

- Further extension of the instant asset write-off scheme and consideration by government to make the scheme permanent.
- Efforts to tackle skills and worker shortages.
- Greater support for improved educational and training outcomes.
- Business incentivisation measures.
- Improved mental health program funding.
- Improve the taxation system challenges faced by business.
- Incentivise investment that improves Australia's productivity and infrastructure.
- Have an appropriately articulated approach to productivity.

Some of these issues have been partially addressed in this year's budget. However, this budget offers little to drive investment or productivity, and real revenue reform looks to have been put off for another day.

The budget outcomes and commentary detailed in the following pages may also refer to and incorporate the costings for previously announced government proposals.

ECONOMIC CONTEXT FOR THE MAY 2023 BUDGET

To set the economic scene and context for this budget:

- The Australian Government has an approximate $660B budget to allocate in what is effectively a $2.6T economy.
- The Final Budget Outcome for 2022-2023 shows an improved Budget position than previously forecast. This revision is on the back of higher than expected commodity prices, amendments to the gas industry profit tax, and increased PAYG tax collection due to higher labour market participation.
- Australia faces ongoing economic pressures that will have an ongoing impact on our fiscal position including higher costs of servicing government debt, increased spending on government payments from higher indexation, and underlying spending growth in areas such as NDIS, health, aged care and defence.
- The RBA official cash rate currently sits at 3.85%. Although the RBA views inflation in Australia has passed its peak, at 7% it views the indicator is still too high and will be some time yet before it is back in the target range (2-3%). Given the importance of returning inflation to target within a reasonable timeframe, the RBA Board has stated that further increases in interest rates may be warranted.
- Having moved into the 0.70 space in February, the AUD/USD exchange rate moved down into the 0.60's and remains under 0.68 albeit on an upward trend since late April 2023.
- According to the ABS, wage growth seasonally adjusted private sector wages rose 0.8% over the December quarter 2022. Through 2022 growth for the sector lifted to 3.6%, the highest rate recorded for the sector since September quarter 2012.
- In seasonally adjusted terms, in March 2023, unemployment rate remained at 3.5%, with a participation rate remaining at 66.7% and an underemployment rate increasing to 6.2%.

This budget has to be contextualised based on an initial baseline of current, medium and longer term economic forecasting, and considering current fiscal and monetary policy positions such as increasing interest rates, apparently steadying inflation, increasing deficits and net debt, and post COVID social issues. An application of those factors will likely see limited or suppressed economic growth over the coming years. That growth will remain hampered by ongoing, although easing, supply chain issues and a lack of labour with the right skills and competencies.

RELEVANT BUDGET OUTCOMES

INDUSTRY SPECIFIC

- This week's budget announced various measures aimed at supporting SME's.
- SME's with turnover under $10M will be able to instantly write off the value of new equipment worth up to $20,000 so long as the asset is installed and ready to use between 1 July 2023 and 30 June 2024.
- SME's may benefit from a halving of the adjustment factor applied to PAYG and GST instalments. Under the new plan, a 6% GDP adjustment factor will apply in the 2023-2024 income year, replacing the 12% factor of the current statutory formula. Eligible businesses must already fall under current PAYG and GST instalment eligibility thresholds: $50 million and $10 million in aggregate annual turnover, respectively.
- Businesses with a turnover of up to $50M may be eligible to get a one-off $650 payment for power bills.
- SME's which invest in energy-efficient systems (next-generation refrigeration, batteries, or thermal energy storage) will be eligible for bonus tax deductions. With eligible expenditure capped at $100,000, the 20% bonus will provide up to $20,000 in deductions.
- From 1 April 2025 the government will sunset the eligibility of plug-in hybrids from receiving FBT exemption.
- Indirectly our industry will benefit with additional work from the governments allocation of millions of dollars to various public health campaigns and other programs.
- There have been no changes to company tax rates.

Commentary – There is some level of recognition for the needs of small business in this budget, and some allocations may benefit SME's. The $20K asset write off won't buy much of an asset, however the $20K threshold does operate on a per-asset basis and may improve cash flow for some small businesses and lower accounting costs of managing a depreciating asset.

SUPERANNUATION

- From July 2026 superannuation will be payable on 'payday' rather than on a quarterly basis.
- The Governments previously announced cut in tax concessions on superannuation accounts with more than $3M will be legislated to take effect from 2025 with an expected $3.2B to be collected over five years.

Commentary – The requirement to pay super on a payday may have an effect on business cashflow.

RELEVANT BUDGET OUTCOMES

TAXATION

- Despite significant commentary the Stage 3 tax cuts operative from 1 July 2024 remain.
- The Government will collect $2.4B more in petroleum resource rent tax (PRRT) over four years by capping the proportion of PRRT assessable income that can be offset by deductions to 90%. The change, to take effect from 1 July, will bring forward the date that liquefied natural gas projects are expected to pay PRRT. Under current rules, they were not expected to pay any significant amount until the 2030's.
- The heavy vehicle road user charge rate of 27.2c per litre will increase to 32.4c per litre from 2025-2026.

Commentary – Although the heavy vehicle road user charge will be spent on road repair and maintenance, that cost increase will likely be passed on to transport operators' clients.

INFRASTRUCTURE

Further to announcements made in the October 2022 budget, some of the notable infrastructure expenditure from this year's budget include:

- $2.5B for the Brisbane Arena development and up to $935M in contributions for a further 16 new or upgraded venues to be jointly funded in partnership with the Queensland Government.
- $240 million to support development at Macquarie Point in Hobart. This investment is a broader urban renewal precinct, including construction of affordable housing and Macquarie Point Stadium.
- The government will match Tasmanian Government funding of $65M, for upgrades to the UTAS Stadium in Launceston.
- Funding has been allocated to maintain the $110 million-per-year Black Spot Program to work with state, territory and local governments to improve road safety across the nation.
- $976M to various road safety improvements.
- $65M for the Heavy Vehicle Safety and Productivity Program.
- An additional $200M has been allocated to funding future land transport infrastructure projects.

Commentary – Given the size and distances travelled road infrastructure improvements and upgrades are critical.

RELEVANT BUDGET OUTCOMES

EDUCATION

- In confirmation of the government announcement in April, an allocation of an additional $3.7B for a five-year national skills agreement to be negotiated with states and territories, in addition to $400M to support another 300,000 TAFE and vocational education and training fee-free places.
- The government has also committed to a redesign of Australian Apprenticeship Support Services in order to improve apprenticeship career pathways and provide more support for apprenticeship completions.
- More than 1300 schools across the country will benefit from a share of $32m in grants to upgrade school infrastructure and equipment. The funding, part of a $250m commitment to improving school infrastructure, will go towards projects like new or improved outdoor learning areas, new or upgraded air-conditioning, better ventilation, and new tablets and laptops.

Commentary – These measures are welcomed, but won't address the underlying complex web of educational ecologies that created the current shortage of VET students, trainees and apprentices in the short term.

IMMIGRATION

On the back of recent reform announcements by Minister for Home Affairs, Clare O'Neill, and on the back of a review of the migration system, this week's budget confirmed funding allocation for various related issues:

- The government will fund an increase in its visa processing capacity. $75.8M will be spent over two years from 2023–24 to extend the current surge in visa processing resources to ensure the timeliness of visa processing and improve existing visa processing systems.
- Most classes of Australian visas will have their application costs and charges increased from 1 July 2023.
- Skilled workers will need to earn $70K per year, up from $54K, to access the Temporary Skilled Migration Income Threshold.
- The cap on working hours for international student visa holders, which was abandoned as COVID-19 restrictions dried up the labour pool, will return on July 1, 2023. However, the cap will permanently lift by eight hours per week, to 48 hours, potentially granting students the ability to clock an extra day of work compared to pre-pandemic levels.
- The budget also includes better pathways to permanency for Temporary Skill Shortage (TSS) (subclass 482) visa holders. Restrictions will be removed to enable TSS visa holders on the short-term stream access to permanent residence pathways through the Employer Nomination Scheme (subclass 186) visa. The government will also remove the limit of one onshore renewal for the short-term stream TSS visa.

Commentary – Given the backlog in application processing and the need to increase skilled migration additional funding measures are critical to overcome

RELEVANT BUDGET OUTCOMES

WOMEN

- Reflecting on the gender disparity in many industries, $5M in grant funding will flow to organisations devoted to making the worksite more inclusive for female apprentices. This will include providing education, advice or support to increase inclusive workplaces, reduce the cultural barriers to women's participation, address workplace challenges and support businesses to attract and retain women.
- $1.9B to expand the eligibility for the Parenting Payment will have some effect as approximately 91% of single principal carers are women.
- Although without a timeline, the government is investing an additional $589M over four years to meet its goal of ending violence against women "within a generation".
- The government has provided $16.8M to introduce a new Medicare Benefits Schedule item for gene expression profiling test to help determine a patient's risk of recurrent breast cancer.

Commentary – While the significant welfare reforms stated in the women's budget statements are not gender specific, the government has allocated funding to a range of issues that will benefit women.

SOCIAL AND FAMILY

- This budget delivers what has been called the 'cost of living package' which has been budgeted at $14.6B over four years.
- The implementation of the cheaper childcare package, passed in November 2022, will see total spending on subsidies of $55.3bn across the next four years from 2023-24.
- The budget will also increase indexation for funding for government and community services, including mental health, disability, domestic violence and homelessness services, the Medicare Benefits Schedule and community nursing.
- There will be $11.3B to fund a 15% pay rise for aged care workers. This will meet the ruling of the Fair Work Commission, which ordered the whole pay rise be delivered at once, overruling the government's plan to split the 15% over two years. The government hopes the pay rise will attract many thousands of workers to the sector, in an effort to get closer to its promise to staff aged care homes with nurses on a 24/7 basis.

Commentary – Attracting workers into aged care is an imperative, but will likely reduce labour in other areas and industries.

RELEVANT BUDGET OUTCOMES

CYBER SECURITY

In response to various high-profile data breaches, the government made various related announcements:

- $101M over five years from 2022–2023 (and $11.8M per year ongoing) to support and uplift cyber security in Australia through a range of measures, including those focussing on the security of critical infrastructure assets.
- $45.2M over four years from 2023–24 (and $8.4M per year ongoing) for stronger privacy protection and enforcement, including a standalone Privacy Commissioner.
- $88.8M over two years to support Consumer Data Rights in the banking, energy, and non-bank lending sectors.
- $134M of additional investment over 4 years for the Office of the eSafety Commissioner.

Commentary – Given the increasing instances of data and cyber security breaches these funding increases are critical.

A GUIDE TO BUDGETARY TERMS

During the budget delivery period, politicians, economists and media use various economic related terms. Some are used incorrectly, overused, and even abused. Each of the terms are interrelated when it comes to the economy and for budgetary purposes. The following are some of the most commonly used terms and a basic definition of what they mean.

- **Fiscal policy** – essentially taxation and government spending used to influence the economy.
- **Monetary policy** – think interest rates and the Reserve Bank Boards monthly determinations. Given the interest rates have been rising consistently over the last 12 months, governments have had to rely on fiscal policy to move the economy along.
- **Surplus/Deficit** – revenue and income exceeds Government expenditure or the reverse creates a deficit.
- **Forward estimates** – rolling baseline of projections for government budgeting including proposed expenses. Usually the proposed government spending announced in a particular Budget is spread across several years, rather than for just the following 12 month period. The whole budgetary process is built on forward estimates.
- **Inflation/Deflation** – a decline or increase in purchasing power, usually based on the Consumer Price Index.
- **Consumer Price Index (CPI)** – is a quarterly measure of the cost increases or decreases on a weighted average of a 'basket of goods' that includes particular goods and services. Inflation is an increase in the level of prices of those goods and services that households buy. Typically, prices rise over time, but prices can also fall (deflation).
- **Gross Domestic Product (GDP)** – the monetary value of finished goods and services within a country as an indicator for calculating economic growth rates.
- **Cash rate** - is the interest rate that banks pay to borrow funds from other banks in the money market overnight. It influences all other interest rates, including mortgage and deposit rates. In technical terms, it is the interest rate on unsecured overnight loans between banks (loans banks use to manage their liquidity). The cash rate has a strong influence over interest rates in the economy, such as lending and deposit rates. In turn, these interest rates influence economic activity, employment and inflation.
- **Unemployment rates** – those who are employable and actively seeking work - another indicator of the state of the economy.
- **Wage Price Index** – the WPI measures changes in the price of labour, unaffected by compositional shifts in the labour force, hours worked or employee characteristics.
- **Productivity** – put simply it is how efficiently production inputs are being used to produce a given level of outputs. Often considered as a key source of economic growth, but the method of calculation is often disputed and the meaning can be unclear.
- **Wellbeing indicators** – measurement of health, connectedness, and other quality of life indicators.

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FURTHER INFORMATION

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