# Budget Summary - Pre-election sugar-hit

Our Investment Strategy Group and Planning Team share their views on the 2022 Federal Budget.

30 March 2022

# A Positive Budget for Consumer Spending

The Government has been able to use the windfall gains of a stronger than expected economy and commodity prices to boost spending and still show a material improvement in the budget position over the explicit 4-year forecast period.

This is a positive budget for consumer spending with immediate fuel excise cuts and cash handouts for low and middle-income earners. This is a short-term sugar-hit (pre-election) but will be welcomed as consumer confidence has recently declined sharply.

However, the persistence of additional fiscal stimulus – despite unemployment already at ~4% (and expected to fall further to 50-year lows) – may put more upward pressure on wages and CPI. RBA hikes are now priced in for June and are looking more likely after ~$9bn of front-loaded cash handouts

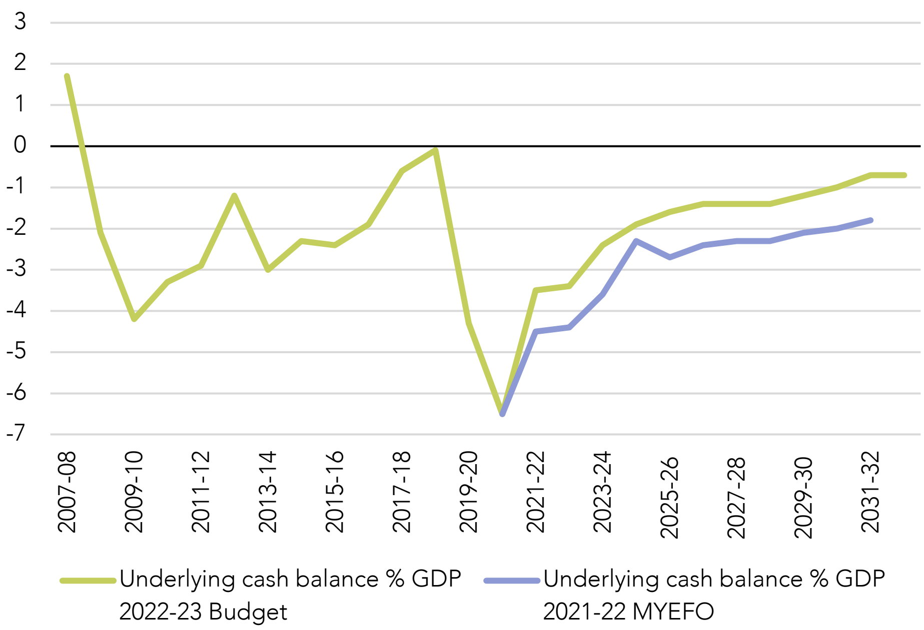
## Economic Overview

For the fiscal year ending June 2022, the Government estimates a budget deficit of A$79.8bn, which is marginally above analyst expectations but significantly below the A$99.2bn forecast in December's Mid-Year Economic and Fiscal Outlook (MYEFO).

For 2022/23, the underlying cash deficit is projected to be $78.0bn, which is $20bn less than what was expected in MYEFO.

Treasury upgraded its expectations for GDP and the labour market, forecasting the unemployment rate will dip to a 50-year low of 3.75% by September.

**Figure 1: Budget deficit has improved from last Decembers MYEFO projections**




Source: Federal Budget Papers, Wilsons.

**Figure 2: The economic outlook has been revised upwards over the forecast period**

| | 2021-22 | | 2022-23 | | 2023-24 | | 2024-25 | | 2025-26 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Budget** | **MYEFO** | **Budget** | **MYEFO** | **Budget** | **MYEFO** | **Budget** | **MYEFO** | **Budget** | **MYEFO** |
| **Real GDP** | 4.25 | 3.75 | 3.5 | 3.5 | 2.5 | 2.25 | 2.5 | 2.5 | 2.5 | NA |
| **Unemployment rate** | 4 | 4.5 | 3.75 | 4.25 | 3.75 | 4.25 | 3.75 | 4.25 | 4 | NA |
| **Consumer price index** | 4.25 | 2.75 | 3 | 2.5 | 2.75 | 2.5 | 2.75 | 2.5 | 2.5 | NA |
| **Wage price index** | 2.75 | 2.25 | 3.25 | 2.75 | 3.25 | 3 | 3.5 | 3.25 | 3.5 | NA |

Source: Federal Budget Papers, Wilsons.

Based on the stronger than expected economic recovery and high commodity prices, Treasury projects the underlying cumulative cash deficit to come in at $104bn less than they expected in MYEFO in late 2021 over the 5 years to 2025/26. Even with $39bn in new pledged spending coming from one-off payments and tax cuts over the next six months.

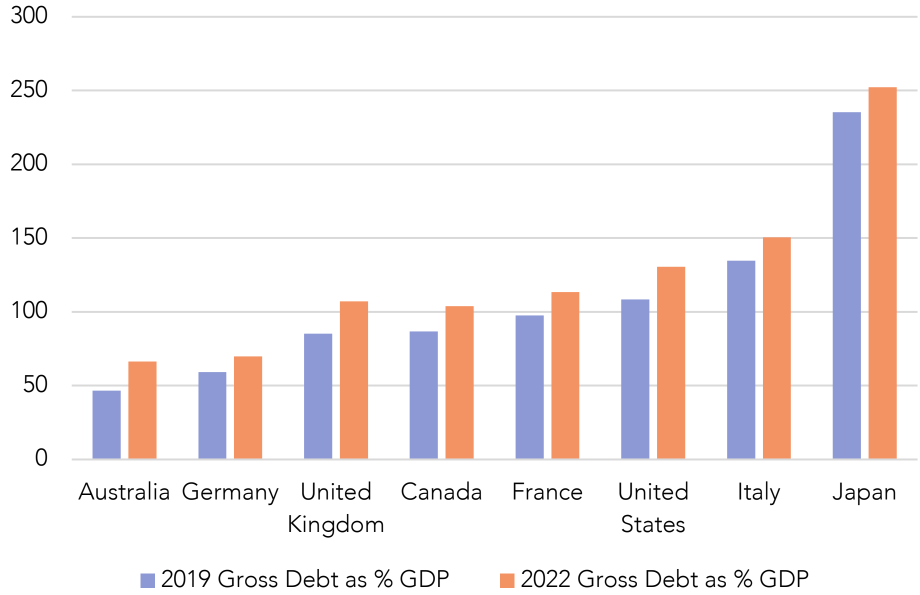
This sees net debt grow at a slower rate hitting 33% (current 28%) in FY26, still low in a global context. Net interest payments remain less than 1% of GDP over the next 4-year forecast windows.

## Commodity Prices

According to the budget papers, iron ore prices are assumed to decline from $134 to $55 per tonne free on board (FOB); metallurgical and thermal coal prices are assumed to decline from $512 to $130 per tonne FOB and $320 to $60 per tonne FOB respectively.

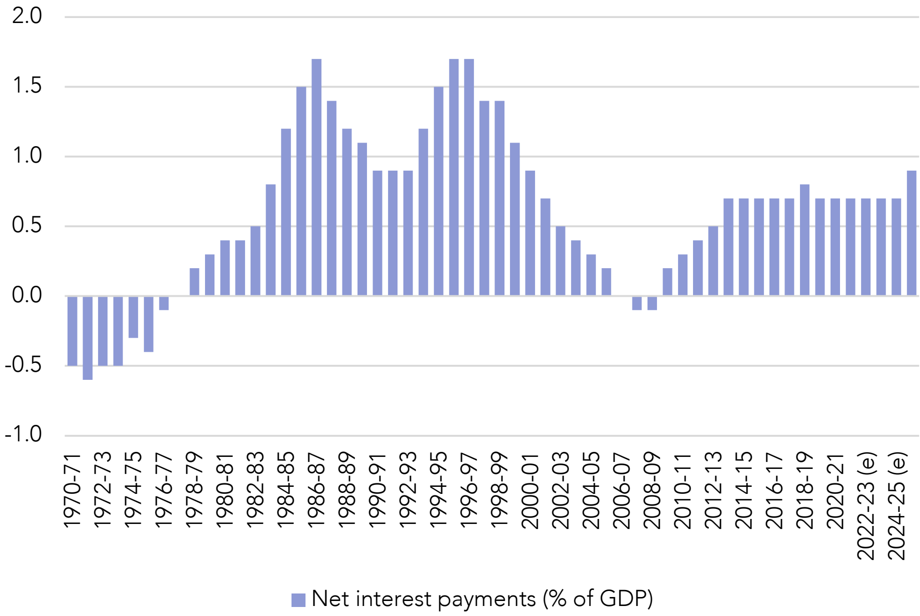
Assuming prices stay elevated until September and then decline over the next six months, Treasury says tax receipts over 2021/22 to 2024/25 would be A$29.5bn higher.

**Figure 3: Australia still has a low debt balance relative to the rest of the world**




Source: Federal Budget Papers, Wilsons.

**Figure 4: Through to 2024-25, net interest payments are forecast to be 0.7% of GDP (the same as pre-COVID).**




Source: Federal Budget Papers, Wilsons.

# Key Budget Initiatives

### Cost of Living

$3bn - Over the next six months, the excise and excise equivalent customs duty rate on fuel (except aviation fuels) will be reduced by 50% or 22 cents.

$4.1bn - For those with low and middle income, the tax offset will increase by $420 a year in 2021/22, lowering tax bills by $1,500 for more than 10 million people.

$1.5bn - A $250 one-time payment will be made to 6 million pensioners, veterans, and concession cardholders.

### Infrastructure

$17.9bn - An additional infrastructure spend over 10 years committed to roads, rail, and community infrastructure projects.

### Regional Australia

$7.1bn of investment being made in 4 key regions viewed as export frontiers.

$2bn - The Regional Accelerator Program is expected to create jobs in new and existing industries.

### Disaster Relief

$6bn - Disaster relief for floods in New South Wales and Queensland is expected to exceed A$6bn.

### Cyber Security

$9.9bn package to bolster Australia's cyber and intelligence capabilities.

Creation of 1,900 new jobs over the next decade.

### Small Business

$1.5bn - Businesses (with an aggregated annual turnover below $50 million) will be allowed to deduct up to $100,000 for digital uptake expenses and depreciating assets until FY23 and FY24.

### Health

$6bn - Response plan to manage flu and COVID-19 for winter 2022.

$2.4bn - Reduce out-of-pocket costs for new and amended listing on the PBS.

## Australian Equities

Consumer-focused sectors remain in the box seat to pick up the incremental new spending announced in last night's budget. The spending amounts to a ~$A9bn boost to household disposable income over 2022, assuming energy and food price inflation do not eat further into the stimulus.

Given spending, measures are skewed towards low-middle income (and older demographics). Consumer Staples like Coles (COL), Endeavour group (EDV), Metcash (MTS), and Woolworths (WOW) are likely to see a lift in sales.

Consumer Discretionary names like JB Hi-Fi (JBH) and Harvey Norman (HVN) should benefit more than Wesfarmers (WES).

Auto-related exposures like Bapcor (BAP), GUD Holdings (GUD), and Super Retail Group (SUL) should also see a benefit in coming quarters.

**Figure 5: New 2022/23 budget policy**

| | Wilsons Comment | Positive stock implications |
|---|---|---|
| Cash Bonus | A $250 one-time payment will be made to 6 million pensioners, veterans and concession cardholders. | Cons. Staples \| COL, EDV, MTS, WOW<br>Cons. Discretionary\| HVN, JBH, WES |
| Fuel Excise | Over the next six months, the excise and excise equivalent customs duty rate on fuel (except aviation fuels) will be reduced by 50% or 22 cents. | Energy \| ALD, VEA<br>Cons. Staples \| COL, EDV, MTS, WOW<br>Cons. Discretionary\| BAP, GUD, HVN, JBH, SGR, SUL, WES, ADH, AX1, PMV, UNI, MOZ |
| Low/Middle Income tax offset | $420 additional tax offset for low/mid income earners paid on FY22 tax return, most will drop into the 3rd quarter of this year. | Cons. Staples \| COL, EDV, MTS, WOW<br>Cons. Discretionary\| BAP, GUD, HVN, JBH, SGR, SUL, WES, ADH, AX1, PMV, UNI, MOZ |
| Infrastructure | Additional spend on road, rail, and community infrastructure | ABC, BLD, CSR, DOW, SVW |
| Healthcare | No major policy chg. PHI, Hospitals, Dental, Radiology, Pathology. Extension of COVID testing benefit | ACL, HLS, SHL |
| SME Depreciation Bonus/Training | Tax deductions for IT hardware/services + external training courses | HVN, JBH, RDY, WES |
| Cyber Spending | General spending on cyber/intelligence + cloud computing | NXT, MAQ, TNE, XRO |

Source: Federal Budget Papers, Wilsons.

# Strategic Tax Planning Insights

## No Major Tax Reforms

In the taxation and planning space, the Federal Budget has been predictably muted. There have been some minor tax concessions targeted at small businesses but no major taxation reform. The superannuation system has been left untouched following a number of announcements in last year's Federal Budget.

The relevant announcements for our private clients have been explored in more detail below with technical insights from our strategic planning team.

### Superannuation

*Minimum pension drawdown*

The 50% reduction of the minimum pension drawdown requirement has been extended to 30 June 2023. This will apply to account-based pensions and annuities, transition to retirement pensions, and market-linked income streams.

For many of our clients, particularly those who do not need to live off their pension assets, it is generally best to use non-superannuation assets to substitute for the reduction in pension. The potential ongoing benefit of this strategy is that by consuming the non-super assets, an overall reduction in the family group tax rate may be achieved by leaving the lower-taxed superannuation assets intact.

If there is a periodical pension payment in place, ensure that it remains at the reduced level for the next financial year. Where an amount is drawn above the minimum pension, it should be taken as a lump sum drawn from an accumulation account where possible (i.e. an account that is subject to taxation) rather than the tax-free pension account.

For those clients who have met the specific conditions to start a pension, it would be worthwhile considering doing so with their adviser.

Starting a pension, in many cases, results in a tax-free superannuation environment for the monies held therein.

*Last year's Federal Budget measures*

Legislation has still yet to be introduced for the announcements in last year's Federal Budget that related to the conversion of legacy pensions, such as market-linked pensions to account-based pensions and the relaxation of residency rules (i.e. when the members of a SMSF move overseas) extending the central management and control safe harbour from 2 to 5 years and abolishing the active member test. We will provide further details as they come to hand.

Key announcements that have now become law include the ability to make non-concessional (including multiple non-concessional contributions known as 'bring forward' contributions subject to certain conditions) and voluntary employer contributions from age 67 to 75 without meeting the work test, making personal deductible contributions from age 67 to 75 where the work test has been met and reducing the eligibility age for downsizer contributions (i.e. a special contribution cap where the family home has been sold) from 65 to 60.

**Figure 6: Minimum pension amounts**

| Age | Standard minimum | Reduced minimum extended to 30 June 2023 |
|---|---|---|
| Under 65 | 4.00% | 2.00% |
| 65 – 74 | 5.00% | 2.50% |
| 75 – 79 | 6.00% | 3.00% |
| 80 – 84 | 7.00% | 3.50% |
| 85 – 89 | 9.00% | 4.50% |
| 90 – 94 | 11.00% | 5.50% |
| 95 and over | 14.00% | 7.00% |

Source: Federal Budget Papers, Wilsons.

## Individual

*Tax offsets*

As widely predicted there we no significant announcements in the individual space apart from increases to tax offsets for lower-income taxpayers.

Despite much speculation in recent months, the Government has not extended the current low-and-middle-income tax offset (up to $1,080) beyond this current income year.

For clients claiming tax deductions for personally made concessional superannuation contributions, they will need to ensure that their deduction is not diminished where their income taxes are reduced through the operation of the new offsets.

The new offsets may also enable beneficiaries of passive income to receive additional amounts.

These matters should be considered together with a suitably qualified taxation adviser prior to the end of the financial year.

*Medicare Levy*

The Medicare low-income thresholds will also be increased for singles, families, seniors, and pensioners from the 2021/22 financial year.

*Tax enforcement*

The Government will provide an additional $325m in 2023/24 and $327.6m in 2024/25 to the Australian Taxation Office to extend the operation of the Tax Avoidance Taskforce by 2 years to 30 June 2025. The Taskforce undertakes compliance activities that include large private groups and high net worth individuals.

**Figure 7: Broad effect of these announcements summary**

| Taxable income | Tax relief for the year ended 30 June 2022 |
|---|---|
| $37,000 or less | Up to $675 |
| $37,001 to $48,000 | $675 to $1,500 |
| $48,001 to $90,000 | $1,500 |
| $90,001 to $126,000 | $420 to $1,500 |
| Over $126,000 | Nil |

Source: PwC, Federal Budget Papers, Wilsons.

## Business

*Patent Box Regime*

The Government has expanded access to the Patent Box Regime announced in last year's Federal Budget. It now includes certain agriculture and veterinary chemical products and technologies which have the potential to lower emissions. Eligible income will be subject to an effective income tax rate of 17% for patents granted after 29 March 2022 and for income years commencing on or after 1 July 2023.

*Small business – technology investment boost*

For small businesses (where aggregated annual turnover of less than $50m), an additional 20% deduction will be granted for costs incurred on business expenses and depreciating assets that support their digital adoption. These include cyber security, subscriptions to cloud-based services, and portable payment devices. An annual expenditure cap of $100,000 will apply from 29 March 2022 until 30 June 2023.

*Small business – skills and training boost*

An additional 20% deduction will be granted to small businesses for costs incurred on external training courses provided to their employees. The training courses need to be provided to employees in Australia or online by Australian registered training entities. It will apply to expenditure incurred from 29 March 2022 until 30 June 2024.

*Tax exemption for state and territory COVID-19 business grants*

Additional state and territory COVID-19 business grants will be made on non-assessable and non-exempt income for taxation purposes up to 30 June 2022.

*Expanding access to employee share schemes*

The Government has announced it will be enhancing the legal framework for unlisted companies to incentivise its management and employees.

# Disclaimer and Disclosures

Recommendation structure and other definitions

Definitions at www.wilsonsadvisory.com.au/disclosures.

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Please speak to a specialist tax adviser to determine how these changes will affect your circumstances and situation.

These proposed reforms have not yet been legislated and are subject to change.

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