Grant Thornton

Designing Australia's Future

Federal Budget 2022–23

Contents

Foreword

While all Budgets are important as they set the financial agenda for the year, this particular Budget will also set the Government's manifesto for the upcoming Election. And in doing so, it's hard not to acknowledge the current economic climate which has been like no other. External pressures are creating rising costs including housing affordability, groceries and petrol causing a knock on effect for businesses as consumers rein in their spending. The hospitality industry in particular has seen trade fall by nearly 40 per cent since early 2020.

We have reached a point – a tipping point perhaps – where we are in our third year of the global COVID-19 pandemic, and people, businesses, households and government-funding support packages have been, and are, exhausted. The Government has accumulated close to $300b of additional debt from keeping the economy afloat, accrued from over two years of COVID-19 stimulus packages including JobKeeper for over 1.5m people.

While this spending has contributed to our record Budget deficits, it is heartening to see the economic results from the Government's intervention. As of February 2022, unemployment is at a record low of 4 per cent, and the participation rate has increased to 66.4 per cent. The annual number of business insolvencies in Australia has declined heavily to 4,235 companies entering external receivership during the 2020/21 financial year, compared with 7,362 from the 2019/20 financial year before. In addition, the last few years' record low interest rates have given businesses an opportunity to grow and make investments to innovate for the future.

Speaking to our clients and the business community, there are three common issues each industry is facing: supply chain pressures, workforce management, and the need for increased manufacturing and innovation to continue to support the economy. In this Report we take a deep dive into each of these three areas, and will drill down into the Budget's spending highlights, taxation implications, and identify priority industries.

It seems each year we are calling for the same things from Government to combat the effects of COVID-19. We want more grants to increase sovereign manufacturing, improved health and aged care systems, and incentives for skilled workers to fill the rising job vacancies. This year, the Government may have listened as they announce a joint venture with Moderna and the Victorian government to produce one hundred million Australian-made mRNA doses which is part of the $1.5b Modern Manufacturing Strategy. The benefits of this strategic partnership will flow through all three key areas for business across the supply chain, workforce and increased sovereign manufacturing capabilities.

Prior to COVID-19 we were part of a thriving global economy, but this global economy has now shrunk as businesses and Governments look to support their own local economies. We have also been reminded of how isolated we are geographically, which has been compounded by the recent Russian aggression in the Ukraine, and political tensions with China, further exacerbating our supply chain delays and dampening our export market. This year's Budget is focused on domestic resources and reinforces our need to engage with on-shore businesses and manufacturers.

The most recent Omicron outbreak reiterated that the future is never going to be what we expected, and as we move into endemic status we must be prepared for a continuous stream of new waves and potentially different strains. As we consider the design for Australia's future, businesses who succeed will be flexible, support their staff, plan strategically, manage cash flow, and invest in technologies to deal with any potential challenges we may be faced with.

Greg Keith
CEO, Grant Thornton Australia

Read Bio

Spending highlights

Budget deficit

$-134.2b	$-79.8b	$-78.0b	$-56.5b	$-47.1b	$-43.1b
for 2020/21	for 2021/22	for 2022/23	for 2023/24	for 2024/25	for 2025/26

Net debt

$592.2b	$631.5b	$714.9b	$772.1b	$823.3b	$864.7b
for 2020/21	for 2021/22	for 2022/23	for 2023/24	for 2024/25	for 2025/26

The highlights

1. Cost of living
2. Infrastructure
3. Defence

Priorities

- Create more jobs
- Address cost of living
- Strengthen our regions and critical infrastructure
- Essential services including health and aged care
- National security and defence capabilities

This year's key spending – a snapshot

$38b to increase the total Defence workforce by 18,500 personnel up to 2040

$17.9b committed to road, rail and community infrastructure

$7.4b National Water Grid Fund

$6b on disaster relief and recovery

$6b in COVID-19 health support including the Winter Response Plan

$4.1b over 4 years for the $420 cost of living payment for low and middle income earners

$1.55b in tax relief for small businesses with a focus on training and technology

$1.3b to end violence against women and children

$547m for mental health and suicide prevention

$450m+ to women's economic activity for expanded paid parental leave and senior leadership development

$330.6m for women's health, including $58m for endometriosis, and $81.2m for genetic testing

$38.4m over 3 years to invest in the digital economy and technology

Environment & Sustainability

- The Government has allocated over $2b to environment and sustainability initiatives such as protecting the Great Barrier Reef, committing to net-zero by 2050 through "technology not taxes", and bolstering scientific capabilities in marine science and projects in Antarctica.
- In a pledge that bridges technology and environment, the Government will invest an extra $60m to the Recycling Modernisation Fund, with an aim of developing new technology that tackles "problematic plastics", like bread bags and chip packets.
- $247.1m over 5 years from 2021-22 ($300,00 per year ongoing) to support increased private sector investment in low emissions technologies including hydrogen, the continued development of a hydrogen Guarantee of Origin scheme, and the development of a Biodiversity Stewardship Trading Platform to support farmers to undertake biodiversity activities ahead of the introduction of a voluntary biodiversity stewardship market

Darren Scammell
National Head of Financial Services

"Globally, we're seeing environmental, social and governance (ESG) regulation come into effect in countries such as New Zealand, Hong Kong and in Europe. With a net-zero target by 2050 it's fast becoming time for Australia to follow suit. Financial Services institutions are recognising that they have a significant role to play in addressing issues such as Climate Change; however, in the absence of clear regulation and a strong Government position, just knowing where to start has been a significant challenge. If you are not currently required to report on measures outside of finances, we strongly suggest you make an early move and start now. In the absence of regulation, many Australian organisations have implemented an Integrated Reporting (IR) framework. It's a voluntary reporting framework that assists entities to gain a better understanding of their organisation, and a means through which the business can communicate an effective, holistic story of themselves to stakeholders, which includes ESG. ESG is a major component of Integrated Thinking and Reporting."

Indigenous Australians

- Jobs and skills for Indigenous Australians with $636.4m over 6 years to expand the Indigenous Rangers Program, funding up to 1,089 new rangers to undertake land and sea management
- Government unveils $17.3m to extend a program to support successful boarding school places for Indigenous school students. The funding will assist up to 50 boarding providers to offer tailored services to support their students' wellbeing while they are away from their families and communities. Currently there are 2300 Aboriginal and Torres Strait Islander boarding students around Australia.

Cost of living

- $1.5b in cost of living payments providing a one off, income tax-exempt payment of $250. The payment will be paid automatically to all eligible pensioners, welfare recipients, veterans and eligible concession card holders in April 2022.
- Income support payments increased by 2.1 per cent in March 2022, with rates increasing by more than $20 a fortnight for singles and $30 a fortnight for couples. A similar increase is set again for September.
- $2b to increase the National Housing Finance and Investment Corporation's liability cap to $5.5b, supporting around 10,000 more affordable dwellings for vulnerable Australians
- $8.6m to expand the Home Guarantee Scheme to 50,000 places per year, including 35,000 for first home buyers, 10,000 for aspiring homebuyers in regional areas and 5,000 for single parents with dependents

Regions and infrastructure

- $2b Regional Accelerator Program to diversify growing regional economies and create jobs in new and existing industries, including investments in infrastructure, advanced manufacturing, apprenticeships and higher education
- $7.1b in transformational infrastructure focusing on 4 key export regions
- $2b increase for Northern Australia Infrastructure Facility bringing total to $7b
- $8.9b National Water Grid Fund, including $5.4billion for Hells Gate Dam
- $1.3b further investment to enhance regional Australia's connectivity
- $600m to enhance innovation, productivity and resilience in the agricultural, fisheries and forestry sectors
- $17.9b committed to road, rail and community infrastructure

Sian Sinclair
National Head of Real Estate & Construction

"With the current emphasis on sizeable infrastructure investment, Government needs to break down the delivery of large scale projects into a phased approach rather than awarding one major contract, allowing mid-tier contractors to compete and minimising the financial risk sitting with a single operator."

Defence

- $38b to expand defence force by 18,500 personnel
- $9.9b over 10 years to deliver a Resilience, Effects, Defence, Space, Intelligence, Cyber and Enablers package (REDSPICE), significantly enhancing capabilities of the Australian Signals Directorate (ASD)
- $136.7m to maintain Australian Border Force's maritime surveillance and response capability
- $66.9m to protect Australian community from threats posed by convicted high risk terrorist offenders
- $19.8m on National Convicted Terrorist Offender Register
- $116.8m to boost the Australian Criminal Intelligence Commissions' capacity

Tax overview

Business Taxation

Deduction boosts for small business

Two support measures were announced for small businesses (turnover under $50m) in the form of a 20 per cent uplift of the amount deductible for expenditure incurred on external training courses and digital technology.

Skills and training boost

An additional 20 per cent of expenditure incurred can be deducted on external training courses provided to employees in Australia or online delivered by entities registered in Australia. Exclusions apply, and the boost will apply to eligible expenditure incurred from 7:30pm AEDT on 29 March 2022 until 30 June 2024.

Technology Investment boost

An additional 20 per cent of the cost incurred on business expenses and depreciating assets that support digital adoption can be deducted. An annual cap of $100,000 will apply in each qualifying income year, and the boost will apply to eligible expenditure incurred from 7:30pm AEDT 29 March 2022 until 30 June 2023.

Patent box

These measures will be extended to support practical, technology-focused innovations in the Australian agricultural sector and the Government's technology-focused approach. The Government has also expanded the previous Budget measure for Australian medical and biotechnology innovations, now allowing patents granted or issued after 11 May 2021 to be eligible for the regime.

PAYG instalments

Companies can choose to have their pay-as-you-go (PAYG) instalments calculated based on current financial performance, extracted from business accounting software, with some tax adjustments. Subject to advice from software providers about their capacity to deliver, it is anticipated that systems will be in place by 31 December 2023, with the measure to commence on 1 January 2024, for application to periods starting on or after that date.

PAYG and GST instalment uplift factor

The Government has confirmed that the GDP uplift factor for PAYG and GST instalments will be set at 2 per cent for the 2022–23 income year for:

- Businesses with an annual aggregated turnover of up to $10m in respect of GST instalments
- Businesses with an annual aggregated turnover of up to $50m in respect of PAYG instalments

Employee share schemes

Further reductions to regulatory red tape in Employee Share Schemes (ESS) were announced for unlisted companies, but no new Tax concessions have been made available. The regulatory framework for ESS plans should make it easier for more valuable ESS awards to be issued to employees at all levels of unlisted companies, not just at C–Suite level. The change allows employees to invest up to $30,000 per year, accruable for up to 5 years for options (plus 70 per cent of dividends and bonuses), or unlimited access to enable participation in a liquidity event. The proposed regulatory changes should also assist with offers to independent contractors where they do not have to pay for the interests. While the proposed changes are likely to be particularly beneficial for start–up organisations, they should also be of assistance to more established unlisted companies. In light of these proposed changes, when considering the implementation of a new ESS plan or additional awards under an existing plan, we recommend discussing the proposed changes with your lawyer who can advise on these regulatory changes.

The lack of any additional ESS tax law changes in this Budget does present a lost opportunity to elevate Australian ESS rules to align with other comparative jurisdictions.

COVID-19 business grants designated non-assessable non-exempt income

The measure that enables payments from certain state and territory COVID–19 business support programs to be made non–assessable non–exempt (NANE) for income tax purposes until 30 June 2022 has been extended. Eligibility is limited to COVID–19 grant programs directed at supporting businesses that are the subject of a public health directive applying to a geographical area in which the businesses operate and whose operations have been significantly disrupted as a result of the public health directive.

Concessional tax treatment of carbon credit and biodiversity certificate income

The Government will allow the proceeds from the sale of Australian Carbon Credit Units (ACCUs) and biodiversity certificates generated from on-farm activities to be treated as primary production income for the purposes of the Farm Management Deposits (FMD) scheme and tax averaging from 1 July 2022. The Government will also change the taxing point of ACCUs for eligible primary producers to the year when they are sold, and extend similar treatment to biodiversity certificates issued under the Agriculture Biodiversity Stewardship Market scheme, from 1 July 2022.

Tax Compliance

ATO's Tax Avoidance Taskforce: extended operation, more funding

The Government will provide $325m in 2023-24 and $327.6m in 2024-25 to the ATO to extend the operation of the Tax Avoidance Taskforce by two years to 30 June 2025.

Digitalising trust income reporting

The ATO will develop new systems to ensure all trusts have the option to lodge returns electronically, commencing from 1 July 2024, allowing beneficiaries to pre-fill their tax returns for information collected from electronically lodged trust returns. The digitalisation of trust reporting and beneficiary obligations will reduce errors, processing times and improve ATO processes.

Taxable payments data reporting: option to link to BAS cycle

The Government will allow businesses the option to report Taxable Payments Reporting System data (via accounting software) on the same lodgement cycle as their activity statements commencing from 1 January 2024. It will result in lower compliance for the taxpayer, increase accuracy and better timeliness of reporting.

STP data to be shared with States and Territories

The Government's intends to develop the IT infrastructure required to allow the ATO to share single touch payroll (STP) data with State and Territory Revenue Offices on an ongoing basis. This further reaffirms Grant Thornton's position that our clients need to be acutely aware of the information they will be providing upon implementation of STP2.

Superannuation

Superannuation pension drawdowns

The Government has extended the 50 per cent reduction of the superannuation minimum drawdown requirements for account-based pensions and similar products for a future year to 30 June 2023. The 50 per cent reduction in the minimum pension drawdowns provides retirees with greater flexibility and certainty over their savings and super retirement funds.

Previously announced changes to superannuation

- Removal of the $450-a-month threshold before an employee's salary or wages count towards the superannuation guarantee.
- Increasing the limit on the maximum amount of voluntary contributions made over multiple eligible financial years under the First Home Super Saver Scheme from $30,000 to $50,000.
- Enabling individuals aged 60 and above to make downsizer contributions to their superannuation plan from the proceeds of selling their home, allowing up to $300,000 contribution each spouse.
- Repealing the work test for individuals aged between 67 and 75 who make non-concessional and/or salary-sacrificed superannuation contributions. The work test will continue to apply for those making concessional contributions and claim a deduction for these personal contributions.
- Enabling superannuation trustees to choose their preferred method of calculating exempt current pension income when they have member interests in both accumulation and retirement phases for part, but not all, of the income year.

Personal Taxation

Low income offset

The Government announced a one-off increase to the low and middle income tax offset (LMITO) of $420 for the 2021-22 income year, paid from 1 July 2022 with the lodgement of your personal income tax return for the 2021-22 year. This increases the maximum LMITO benefit in 2021-22 to $1,500 for individuals and $3,000 for dual income households.

Personal tax rates unchanged for 2022-23; stage 3 start from 2024-25

From 1 July 2024, the 32.5 per cent marginal tax rate will be cut to 30 per cent for the tax bracket $45,000 – $200,000. This will more closely align the middle tax bracket of the personal income tax system with corporate tax rates.

COVID-19 test expenses to be deductible

The costs of taking a COVID-19 test to attend a place of work have been deemed tax deductible for individuals from 1 July 2021. This will ensure fringe benefits tax (FBT) will not be incurred by businesses where COVID-19 tests are provided to employees for this purpose. This change will be in place permanently.

Indirect Taxes

Temporary reduction in fuel excise

The Fuel excise will be decreasing by 50 per cent for a period of six months, with the exception of aviation fuels.

GST Distribution between the States

The GST pool to be distributed between the states is expected to grow by more than $4b in 2022-23.

Indirect Tax Concession Scheme

An extension and renewal of Indirect Tax Concession Scheme expected to decrease Australian Taxation Office receipts by $6.9m over the next four years.

KEY BUSINESS INSIGHTS

Bearing the brunt of supply chain pressures

Prior to 2020, the world was experiencing the benefits of globalisation with free trade agreements, swift transportation via air or sea, and a booming import / export business, and Australia was successfully operating under a distribution model, and not a manufacturing model. However the ramifications of COVID-19 have had lasting and drastic effects. These effects have only been compounded by countries around the world responding by increasing their domestic infrastructure and construction projects to boost their economies and keep businesses running throughout COVID-19 lockdowns.

As a result of COVID-19, international supply chain issues are now affecting businesses across all industries on a scale not seen in the last 50 years. Businesses may have been hopeful supply chain pressures would ease as the world begins to learn to live with COVID-19, however external factors such as conflicts between countries, rising commodity prices, and new variants have translated to further disruptions with no short term relief.

In addition, the Russian war in the Ukraine and subsequent sanctions on trade have presented ever-increasing challenges, both for the frequency of shipping lines and on the price of fuel both here and across the globe.

Currently, Australia only has nine privately owned freight ships that would provide some sort of Guarantee of bringing goods into the country, but compared with other nations in our region we are under resourced. There is also a high priority need to get certain items through the supply chain and into Australia.

$200m Into the Regional Accelerator Stream of the Supply Chain Resilience Initiative that will assist business to address supply chain vulnerabilities and additional funding for the CSIRO.

Fuel excise halved from 44c/ltr to 22c/ltr for six months, costing $3bn over the forward estimates period

$17.9b Committed to road, rail and community infrastructure

Managing product shortages and changing consumer demand

Prior to COVID-19, shipping companies were operating under very different conditions but the cost of berthing vessels was still expensive. To balance their running costs, the shipping companies reduced capacity and cancelled lines. In just two years, the cost to ship a container from Shanghai to Sydney has increased up to tenfold, and prices have compounded with rising port terminal service charges and congestion surcharges due to backlogs.

From supermarket to textiles to building materials and health, the difficulty in getting products into Australia has caused a ripple effect across all industries to almost every aspect of business. The exorbitant increase to freight costs has spiralled out of control. Businesses and consumers are bearing the brunt of the supply chain delays and disruptions, having to absorb rising costs and manage consumer disappointment.

Luke Ritchie
National Head of Consumer Products & Retail

"Most Australian retailers import significant quantities of product from overseas, so bloated shipping costs and delays can have a significant impact on trade. Some expectations are for the shipping backlog to take until 2023 to clear, so retailers have tended to err on the side of ordering slightly larger quantities and hold higher inventory levels. Despite the supply chain challenges, January 2022 sales were 6.4 per cent above last year with February 2022 numbers expected to be similar."

While private industries and Governments are lobbying the shipping companies to create more capacity to increase shipping runs around the world, these groups are also looking for additional solutions including improving domestic infrastructure and manufacturing more goods and materials here in Australia.

Overcoming challenges through government incentives

Federal and State Governments have implemented infrastructure initiatives to assist goods moving around the country more swiftly. In this year's Budget, the Government has announced new measures under its $120b infrastructure pipeline to increase domestic supply chain. This includes more than $500m for local councils to deliver priority projects; $880m to better connect regional Australia with ports, airports and other transport hubs; as well as increasing the efficiency of the national freight network with the Melbourne Intermodal Terminals.

The Federal Government has promised to improve its road and rail projects and allocated $678m to seal another 1000km of the Outback Way in Queensland, Northern Territory and Western Australia. They have also dedicated $2.26b to complete the final stage of Adelaide's North-South Corridor motorway.

The Government has made the SMART Projects and Supply Chains service available to prepare Australian businesses for possible future challenges. The initiative is designed to provide businesses across all industries with various tools to increase business capability and encourage growth, including access to a Growth Grant worth up to $20,000.

Expanding sovereign manufacturing capability is another focus area for Government to rectify the supply chain issues. The Government is implementing incentives to increase manufacturing in strategic areas like semiconductors, pharmaceuticals and telecommunications equipment.

Due to the number of Bilateral and Multi-lateral free trade agreements the Government currently has in place, raw materials or finished goods can be imported free of duty. In light of the ongoing inbound supply chain issues around increasing freight rates, vessel capacities, lack of empty containers overseas, and port congestion, which is resulting in a surplus of empty containers in depots around Australia, perhaps it is time the Government reviewed the nature of free trade agreements.

Similar to some of our key trading partners like the USA and China, Australia could look to apply additional tariffs or quotas on goods that we can manufacture locally, with the intention to increase domestic capacity or encourage investment in capabilities. Furthermore, the Government could increase incentives to allow for more value-add manufacturing using Australia's minerals and resources, such as lithium, which are currently all exported overseas for further manufacturing.

Attacking the problem head on

At both State and Federal levels, Governments have created independent commissions to investigate where the issues are most commonly experienced in the supply chain. In 2021, the Government launched its Australian Competition and Consumer Commission's stevedoring report which discovered Australia's largest ports were operating far below international best practice. The Productivity Commission also found there needed to be more efficiencies in our port's work practices and the need for improved infrastructure settings, which would result in lower freight costs for businesses.

From State Government, the NSW Minister for Regional Transport and Roads, Sam Farraway launched the new NSW Freight Transport Advisory Council (FTAC) in March 2022 to streamline domestic freight travel. It would be wise for the other State Governments to take these steps too, and for the Federal Government to act now and address the issues that were uncovered from their own investigations.

In the UK, stevedores and warehouse employees have more relaxed COVID-19 isolation rules than other industries allowing close contacts to work. If this policy was implemented locally in Australia, this could significantly reduce delays in moving goods through the supply chain once they arrive in our ports.

Sian Sinclair
National Head of Real Estate & Construction

"The building sector is continuing to experience what has been for some, a perfect storm of exploding demand at a time of crippling material and workforce shortages. Building operators should look to mitigate their financial risks through real time data-led forecasting and pricing of risk, securing finance and actively managing their communication and compliance with regulators."

Export key to Australia's recovery

On the other end of the supply chain, Australian businesses have been looking to exports to encourage more frequent shipping runs. There is a surplus of empty containers residing in Australia creating congestions in our ports, and shipping lines are positioning vessels in Australia just to pick up empty containers. Due to the imbalance of containers being imported to those being exported, the export freight costs for moving containers should be cheap, making Australian exports more competitive. This is a great opportunity for Australia to develop its export markets which will in turn lower export freight rates and encourage more shipping lines to deliver imports.

Niche Australian products such as fragrances, candles and cosmetics have been experiencing strong demand from export markets and are set to experience further growth. The Government has also identified sustainable minerals; and battery components, particularly for charging electric vehicles; as well as pharmaceuticals as high growth export sectors for Australian businesses.

Australian wine exports have always performed strongly, however when China increased their tariffs last year it saw this market drop by 30 per cent in value. The latest figures from Wine Australia showed nearly $1b stripped out of wine exports to mainland China and this will take significant time to offset the impact.

Exemplary Global Citizens

Global stability and countries continuing to trade as good citizens will help ease supply chain pressures. The current conflict in the Ukraine has demonstrated how just one country, Russia, can undermine the global order that hundreds of countries across the world have worked so hard to achieve following the Second World War. The more recent issues experienced throughout the supply chain across the globe are just one small part of what could be to follow if Russia continues its aggression, and if any other countries follow suit. True globalisation and its benefits of a free market, improved trade and business growth can only be achieved in a safe environment where freight companies are encouraged to travel far and wide to move much-needed goods to all parts of the world.

Richard Nutt
Partner – Specialist Tax

"The Russian war in the Ukraine is already having a significant impact on a range of industries as countries, businesses and manufacturers shut down their factories and impose trade sanctions on Russia. For example, there is a drastic shortage of semiconductors – a key component of phones, computers and automotive vehicles – already causing delays for these products in Australia and across the world. In the US, the Government placed a 30 per cent tariff increase on imported semiconductors to encourage sovereign manufacturing of these goods. I would advocate for the Government to review its current tariff agreements to support the Modern Manufacturing Initiative which in turn would grow investment and encourage sovereign manufacturing on high priority goods such as semiconductors and renewable energy components including batteries, transformers and wind turbines."

Workforce diversity at the core of post-pandamic recovery

Despite the positive economic outlook, the effects of the COVID-19 pandemic have been far reaching and have had a lasting impression on one of business's biggest resources – its people. Around the world, businesses are facing a staffing crisis with more work opportunities available than there are people to fill, this is particularly felt in the highly skilled sectors including the health, science and technology industries.

Here in Australia we are not immune and have also been experiencing staff shortages, particularly felt in sectors where staff have always been in greatest demand but needed the most such as health and aged care, as well as life sciences, technology, professional services, supply chain and service industries.

In addition to people taking more sick leave and undergoing mandatory lockdowns as a result of COVID-19, there has been a significant trend seeing people moving from cities to regional areas. This trend has had a major impact on the workforce, and with hybrid working now becoming more permanent allowing people to move out of the cities, Government has highlighted the migration to regional towns as an area that requires its focus.

Unemployment at a record low

The most recent unemployment figures have fallen to 4 per cent, the lowest rate since 2008, and the workforce participation rate has increased to 66.4 per cent. In the coming months, these rates are predicted to fall to 3.75 per cent for the first time in over 50 years. In December's MYEFO update, these rates were not predicted until June 2023, proving the staffing shortage is escalating faster than anticipated affecting every industry, and at every level. This extreme workforce shortage is creating havoc for businesses across the nation's critical supply chains, contributing to inflationary pressures, and Australia's ability to attract investment.

It's not all doom and gloom, the low unemployment rates are assisting to lift revenue for Government through taxes as well as reducing the amount of welfare payments. However the cost of living is reflected in the increase to inflation at 4.5 per cent, outpacing any wages growth, most recently reported at 4 per cent.

Technology at the centre of post-COVID workplaces

In response to COVID-19 snap lockdowns and self-imposed isolation, businesses have turned to technology to help their staff adapt to new ways of working. Staff are choosing to work from home as virtual meetings have now become the norm, and services like telehealth Doctor Appointments and online grocery shopping have reduced the need for face-to-face services. This new way of working and accessing goods and services relies heavily on technology and will continue well past the pandemic phase. This budget has seen the Government recognise the increased need for technology and in response they will reward certain businesses investing in technology by offering a $120 tax deduction for every $100 a business spends on training its employees.

For industries that rely on people, and where workers cannot deliver services from home, such as health, aged care and disabilities, this will not be enough and new programs need to be establish to attract and retain the people required.

The Budget has also allocated a $9m spend for businesses to streamline on the job training to recognise international safety standards, saving businesses $136m per year through reduced duplication and compliance costs.

In addition, the temporary full expensing and temporary loss carry-back measures introduced last year to assist businesses purchase equipment and invest in capital remain on track to create 60,000 jobs by the end of 2022-23.

Supporting migration bounce-backs

Our country is currently experiencing a brain drain. Due to reduced migration rates we do not have as many qualified people from a Science, Technology, Engineering and Maths (STEM) background to fulfil jobs in key sectors including in health, financial, advisory and support services. COVID-19 has caused a critical shift in the number of skilled arrivals, According to the 2022 Grant Thornton International Global business pulse, Australia's availability of skilled workers is at 39 per cent, lower than Asia Pacific Average 57 per cent, and global average 57 per cent.

To attract talented individuals and international investment to Australia, the Government will provide $19.5m over two years from 2022-23 to continue the Global Business, Talent and Investment Taskforce, as the renamed Global Australia Taskforce.

Tom Isbell
Partner & National Head of Global Mobility

"We've experienced a skills gap across all levels with the significant dip in overseas migration as a result of COVID-19. This spending into attracting new talent from overseas is crucial to address our domestic skills shortage. Making this global talent visa more widely available to qualified, skilled professionals, coupled with shorter processing time for visas, will be instrumental to support a diversifying of the country's economy."

The Government has expanded on the adjustments made to the Employee Share Schemes (ESS) in last year's Budget, by now removing the cap on the number of shares or options that can be issued, and increasing the value cap of shares from $5000 to a monetary cap of $30,000 per year. The Government has rolled these updates into the Budget Measures Bill, meaning they will be passed into law before the impending federal election. When it comes to ESS offering employee benefits including discounted shares in their company and share options, Australia has not been able to compete on an International level. These changes will boost our competitiveness in this space, and hopefully attract quality staff from other countries from all levels, and give start-ups an edge over more established businesses too.

Government needs to invest in education and pique an early interest in STEM

The technology sector is now the largest contributor to Australia's GDP after mining and banking. With that growth comes increased demand for staff in the tech sector and the Government has been asked to create pathways for students to take these subjects in school and university to drive up the number of available graduates. There is a need to more effectively train Australia's STEM talent to create a steady flow of quality and highly skilled talent coming through the pipeline.

Investment in STEM education will help Australia's struggling health and aged care system which is buckling under the pressure of not having enough doctors, nurses and support staff to match its needs. Early intervention in education may encourage younger Australians to consider a career in health. Of equal importance is the need for these staff to be fairly remunerated once they are working in the field.

Darrell Price
National Head of Health & Aged Care

"The Budget will provide $49.5m for vocational training, however who will they train? We are unable to attract clinical and care workers to this industry due to the uncompetitive low wages and regulatory environment that induces fear. Furthermore, we are short 9,000 nurses in the aged care sector right now, and the Budget does not address this issue. For example we could develop transitional programs to return nurses to practice after ten years that don't require redoing qualifications. There is a small but willing pool of these people, however everyone can make a difference. Overall, a lack of clear budget and policy action will continue to see the worker's participation in this industry decline, when older Australians need these services the most."

The Budget also announced the Australian space sector will get $65m to invest in local jobs, technologies and businesses.

Re-Engage Younger Workforce and International Students

Compared with the start of the pandemic, there are now 300,000 fewer foreign students living in Australia which has had a severe effect on retail and hospitality. The international and domestic borders are now re-opened and Government relaxed certain work restrictions for a range of visas including eligible Student and Working Holiday Maker (WHM) visa holders, and extended visas for certain engineering graduates. However despite these measures, pre-pandemic migration levels are not predicted to return for years to come.

In an effort to increase workforce participation, the Government announced its ReBoot job program aimed at 'disengaged' young people to provide them with mentoring and hands-on learning experience to help them enter the workforce. The new pre-employment program will see a $46.8m investment to try and get 5000 of these young people aged 15-24 years old into education or work. If these young people can enter the workforce the staffing crisis will be alleviated somewhat, income tax revenue will increase and welfare payments will decrease.

In addition to extending the Boosting Apprenticeship Commencements scheme, which was launched in the October 2020 Budget, the Government will invest a further $2.8b to grow Australian apprenticeships providing $5,000 payments to new apprentices, and up to $15,000 in wage subsidies for employers who take them on.

In addition, the Government has allocated $1.2b over four years for an expanded Transition to Work employment service for disadvantaged young Australians.

Bhavesh Narsey
National Head of Not for Profit

"The caring economy which has taken centre-stage through the pandemic, continues to be underpinned by systemic funding challenges. Providers of early learning services, disability services and health and community services continue to navigate rising operational costs and tightening labour market on top of an already stretched workforce. This year's budget has the opportunity to deliver significant social and economic reform over the medium term. Increasing choice and workforce participation for people living with disabilities, investing in physical and mental health avenues and further reforms in childcare funding, designed to increase female workforce participation and address the nation's skills shortage, need to be on the table."

Encouraging diversity

The Government has announced an extended and flexible parental leave policy now offering 20 weeks of paid leave to be shared by either one or both parents as they wish, and a single parent can now take the full 20 weeks. The Budget also included access to leave for women who have experienced stillbirths or miscarriages.

Many private companies have adopted expanded parental leave policies to help both parents access paid parental leave. In many cases up to 26 weeks of paid parental leave is offered, which is above the Government's new 20 weeks. In addition, private companies are now offering access to super, even on unpaid leave, which is not currently mandated by the Government. In March 2022, the Government introduced extended childcare benefits by increasing the Child Care Subsidy for families with more than one child aged 5 or under in care. To encourage more parents to re-enter the workforce, there is more work the Government could do to extend childcare assistance.

In addition the Budget has allocated $44m to encourage businesses to hire older people with disabilities offering up to $10,000 in subsidies for employers.

There will be no more COVID-19 driven sweeteners for individuals or businesses, such as continued support from the Government such as Jobkeeper, as it would do more harm than good in an economy that is already feeling pressures from inflation, interest and the rising cost of living.

This Budget has reinforced the Government's commitment to keep people working, a 50 year record of unemployment around 2 per cent would be an incredible achievement, and is in reach based on the economic forecast. However, the measures proposed in this year's budget may not be enough to assist struggling businesses recoup the desperate resources they require for Australia to remain competitive.

Innovating for growth: Manufacturing under the microscope

It is one year on from the Government's increased focus on domestic manufacturing and fortunately we are starting to see investment paying off as business conditions in the manufacturing sector are improving. Now in our third year of living with COVID-19, the issues previously raised in the manufacturing sector are even more important as the pandemic has placed a microscope on the industry and its major challenges. The arguments remain the same – we need more investment and policies to make domestic manufacturing viable.

In this year's Federal Budget, the Government has allocated $1b to the manufacturing sector to supercharge investment with a focus on seven key areas. With increased funding available to boost on-shore manufacturing in the areas that are suffering from supply chain pressures the most, the manufacturing sector can grow exponentially and help to uplift the economy.

The Government has highlighted the need for these products to be manufactured in Australia as a matter of national interest:

Semiconductors – Examples include computer chips and high grade silicon wafers used in electronics, computing and automotive. Global supply has been drastically affected by the Russian war in Ukraine.

Agriculture chemicals – Examples include fertilisers, pesticides, herbicides, rodenticides as well as chemical compounds like urea or ammonia used in products such as AdBlue.

Water treatment chemicals – Examples include chlorine or any chemicals used to disinfect or purify water.

Telecommunications equipment – This could include hardware used for mobile phone networks, including routing.

Plastics – Examples include packaging, piping, construction or medical products made from Polyethylene, polypropylene or PVC.

Pharmaceuticals – Common and specialist drugs and medicines as well as ingredients needed to make them. The scarcity of COVID-19 vaccines in 2021 illustrated the need to produce these vaccines locally

Personal protective equipment – Examples include gloves, masks and other products that have been used in the fight against COVID-19.

The Budget announcements included $250m over two years from 2022 23 to extend the Modern Manufacturing Initiative (MMI) to support businesses in National Manufacturing Priority sectors to deliver high impact projects. Also another $53.9m over four years from 2021 22 to extend the Manufacturing Modernisation Fund to support technology adoption in National Manufacturing Priorities.

Sukvinder Heyer
Partner – Specialist Tax

"With the patent box scheme, further commitment to Modern Manufacturing Initiative, the introduction of tax offset for digital transformation and support for small and medium export businesses to re-establish their presence in overseas markets – all these measures will assist mid-size businesses to improve their manufacturing operations and vital cash-flow."

$328.3m

A further $328.3m in the Modern Manufacturing Strategy, on top of the $1.5bn in the 20-21 budget

$500m

To support manufacturers in regions through a new Regional Accelerator Stream of the Modern Manufacturing Initiative

Investing in automotive and innovation for a cleaner future

In the lead up to the Federal Budget, the Government already announced $243m for critical minerals manufacturing. In the Budget, Government announced a further $200m over five years from 2022/23 for the Critical Minerals Accelerator Initiative which will provide grants to assist Australian critical minerals' producers advance projects through the planning, design, pilot and demonstration phases.

These funds have been awarded in grants to manufacturing projects that support the rise of electric vehicles in Australia, and reduce the global reliance on China for rare earth materials required to make them. This is supportive of the need for innovation and backs Australia's unique position to create renewable energy resources from start to finish. For example we can mine the lithium required to make the batteries used for solar energy power.

Brent Steedman
National Head of Energy & Resources

"Australia is unmatched when it comes to its renewables potential. We have the resources to produce clean energy minerals such as lithium, copper and nickel as well as the ability to manufacture wind turbines and batteries, but the upfront capital costs stand in the way. The Federal Government has a significant role to play in Australia becoming a renewable powerhouse."

These grants are part of the $1.3b MMI and specifically, the $800m MMI Collaboration Stream. The total funding was shared across only a small number of applications which although consistent with expectations, means that unfortunately a large number of highly compelling applications did not result in support via Government funding. Pleasingly, one of the successful MMI Collaboration Stream recipients was a **$120m grant awarded to Pure Battery Technology**'s pCAM plant in partnership with Poseidon Nickel, a proposal Grant Thornton was fortunate enough to be a part of.

The Government will also carve out $247.1m over five years from 2021/22 (and $300,000 per year ongoing) to support increased private sector investment in low emissions technologies including hydrogen, the continued development of a hydrogen Guarantee of Origin scheme, and the development of a Biodiversity Stewardship Trading Platform to support farmers to undertake biodiversity activities ahead of the introduction of a voluntary biodiversity stewardship market.

Following the huge investment in 2021, where is the manufacturing sector one year on?

With the announcement of the successful Collaboration Stream applicants, the $1.3b Modern Manufacturing Initiative is almost fully allocated. Two rounds of funding for MMI Integration Stream and Translation Stream were offered: Round 1 funding has been allocated; and Round 2 results are pending.

Given the MMI featured in the last Budget, as well as the $2b allocated for Research & Development incentives in 2021, we did not expect any new Government support of any real scale for the sector in the 2022 Budget. The supply chain issues of the pandemic have shown us that 'Made in Australia' is so important, a fact the Government has now finally publicly recognised. The MMI has been a great initiative for sovereign industry, however is only a first step in genuine Government support for manufacturing in Australia.

Michael Climpson
National Head of Manufacturing

"To date we have not seen as many projects supported through the MMI as we would have liked, and there's still plenty of scope for the Government to provide ongoing funding and infrastructure to these projects. We're proud to have the largest grant awarded under the scheme so far with Pure Battery Technology's pCAM plant in partnership with Poseidon Nickel, and we hope to see more grants awarded to our clients in the future."

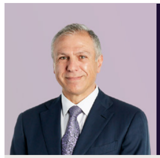
Patent Box

Following its announcement in the 2021-22 Budget, during the initial consultation, industry has been questioning why Patent Box was limited to only two sectors. It appears these questions have been heard, with the 2022-23 Budget announcing that the Government will expand the patent box, currently before Parliament, to support practical, technology-focused innovations in the Australian agricultural sector and the Government's technology-focused approach to reducing emissions in line with the Government's target to achieve net zero emissions by 2050.

More specifically in relation to the Agriculture, the Government will provide concessional tax treatment for corporate taxpayers who commercialise their eligible patents linked to agricultural and veterinary (agvet) chemical products listed on the Australian Pesticides and Veterinary Medicines Authority (APVMA), PubCRIS (Public Chemicals Registration Information System) register, or eligible Plant Breeder's Rights (PBRs); and also to corporate taxpayers who commercialise their patented technologies which have the potential to lower emissions.

Eligible corporate income will be subject to an effective income tax rate of 17 per cent, for patents granted after 29 March 2022 and for income years starting on or after 1 July 2023. Eligible income will be taxed at the concessional tax rate to the extent that the research and development of the innovation took place in Australia.

The Government has also expanded the 2021-22 Budget measure Patent Box – tax concession for Australian medical and biotechnology innovations. It will now allow patents granted or issued after 11 May 2021 to be eligible for the regime. This will incentivise further research and development (R&D) to be undertaken in Australia on medical and biotechnology patents, much of which occurs after the patent application. The Government will also now allow standard patents granted by IP Australia, utility patents issued by the United States Patent and Trademark Office (USPTO), and European patents granted under the European Patent Convention (EPC) to be eligible. This will remove regulatory barriers to accessing the patent box regime for Australian developed innovations patented in the major overseas jurisdictions with equivalent patent regimes. However, taxpayers will still only benefit from the concessional tax treatment under the patent box to the extent that the R&D occurred in Australia.



Tony Pittito
National Head of Agribusiness, Food & Beverage

"This investment into agricultural innovations as part of the Patent Box tax concessions will help the industry meet Australia and the world's growing demand for Australia's food and beverage products. Considering the increased reliance on domestic agribusiness, food and beverage as a result of the pandemic, this expansion of the Patent Box is crucial to support businesses right along the supply chain. From helping scale up manufacturing capabilities, encouraging transformation, to helping accelerate the production processes while retaining high quality outputs – this investment helps fast track the sector's growth ambitions into commercial reality."

From local innovators to global challengers

Australian manufacturers compete in a global market, and have shown true resilience throughout the pandemic. However our manufacturers continue to be challenged with margin pressures, including ever increasing energy costs, and unfortunately the 2022-23 Budget contains no measures that provide any meaningful downward pressure on energy costs.

Manufacturing initiatives do not operate within silos. We need staff to work in manufacturing and innovation, and we need trade policies that support domestic manufacturing making it more attractive to produce goods on-shore. Currently the MMI does not go hand-in-hand with the Government's trade policies as a lack of tariffs on imports keeps the cost of imported goods so low that domestic manufacturing is still expensive.

To decrease costs for local manufacturing, there also needs to be a significant investment in technology and robotics to increase automated manufacturing, this will also help Australia to compete on a global scale to produce end-to-end finished products.

Michael Cunningham
National Head of Life Sciences

"The investment into the life sciences sector's future growth will help us drive our domestic vaccine production capacity – such as the partnership with Moderna to create the mRNA vaccine in Australia. In turn this will develop our medical products and technologies capabilities, and help the sector commercialise more effectively through increased business confidence and funding bringing more certainty in decision-making."

To support the Australian companies looking to expand their presence in global markets, the Government will provide $267.1m over 4 years from 2022-23 (and $4.4m per year ongoing from 2026-27) to modernise and improve Australia's trade system and support Australian exporters. Funding includes:

- **$127.4m** to continue and expand the Digital Services to Take Farmers to Market initiative to transform the delivery of Government agricultural export systems
- **$80m** to provide additional support for small and medium export businesses to re-establish their presence in overseas markets through the Export Market Development Grants program
- **$48m** to upgrade Australia's trade system, reduce the regulatory burden on exporters and to identify opportunities for further reforms
- **$11.7m** to expand the Trade Information Service to provide exporters with a single source of online information to facilitate access to international markets.

However, some industries are arguing what was once a global economy is taking a step backward as a result of COVID-19, by turning inward and focusing on a local manufacturing model. Typically it has always been costly to manufacture goods in Australia, and even with the supply chain in a woeful state, it is still probably cheaper to import than to manufacture locally. Another factor dampening the local manufacturing initiative is that we still need to import materials to create the finished goods, so local industry will require considerable support to combat supply chain issues.

About Grant Thornton

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With our values at the core, we seek out diverse perspectives and challenge when necessary to deliver positive progress for your business. No matter your industry, business lifecycle stage, market or growth plans, our experienced professionals are dedicated to achieving the best outcome for you and your stakeholders.

Find out more

$272m
Local revenue (AUD) at 30/06/21

1,300
People Nationally

165
Partners Nationally

6
Offices Nationwide

$6.6b
Global revenue (USD) at 30/09/21

62,000
People Globally

750+
Offices Globally

140+
Markets

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