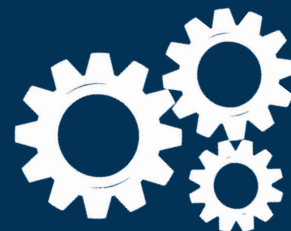


Federal Budget 2020

Key facts and figures



Introductory comments

"We are all Keynesians now" is a phrase that was attributed to US President Richard Nixon. It is a grudging acceptance that in a time of financial crisis, governments should man the pumps and spread money throughout the economy in an interventionist way. This government largesse goes against the grain of the theory of pure capitalism, which propounds the view that capitalism, left to its free-market devices, will produce optimum economic activity and full employment.

John Maynard Keynes was an English economist that argued total spending in the economy was what drove economic activity and the demand for labour. Hence, if economic activity is down, governments should step in to increase total spending by pumping money into the economy. The conservative side of Australian politics does not naturally lean towards the Keynesian view.



But tonight was very different.

Tonight, on 6 October 2020, Treasurer Josh Frydenberg delivered the Federal Budget for the 2020–2021 income year. It will be remembered as Australia's biggest spending budget with a forecast deficit of \$214 billion for the 2021 fiscal year. Hence the phrase, "We are all Keynesians now", could be written large across current government policies and budgets over the four-year forward estimates period. Treasury's underlying cash balance will deteriorate by \$480.5 billion over the forward estimates period.

But as the Treasurer said: "The budget is all about jobs."

The budget papers reveal that the predictions for future deficits will be:

2020–2021	2021–2022	2022–2023	2023–2024
\$214 billion deficit 11.0% of GDP	\$112 billion deficit 5.6% of GDP	\$88 billion deficit 4.2% of GDP	\$67 billion surplus 3.0% of GDP

Predictions for Government net debt as a percentage of GDP:

2020–2021	2021–2022	2022–2023	2023–2024
36.1	40.4	42.8	43.8

Predictions for the percentage unemployment rate:

2020–2021	2021–2022	2022–2023	2023–2024
7.25	6.5	6.0	5.5

Individual Tax Rates

As expected, the adjustments to tax rates that were originally due for implementation in the year ending 30 June 2023 have been brought forward to apply from 1 July 2020. Here is a table of the new tax rates for residents:

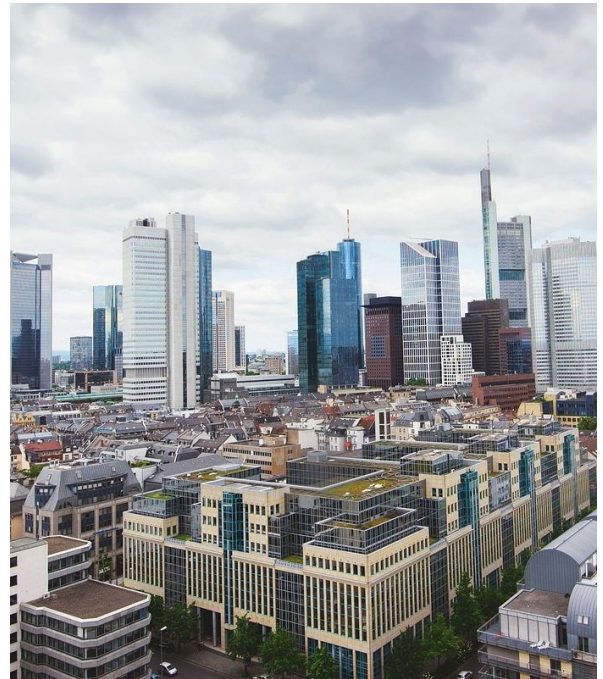
2020–21; 2021–22; 2022–23; 2023–24 tax thresholds		
Taxable income	Rate (%)	Tax on this income
\$0 – \$18,200	0	Nil
\$18,201 – \$45,000	19	19c for each \$1 over \$18,200
\$45,001 – \$120,000	32.5	\$5,092 plus 32.5c for each \$1 over \$45,000
\$120,001 – \$180,000	37	\$29,467 plus 37c for each \$1 over \$120,000
\$180,001 +	45	\$51,667 plus 45c for each \$1 over \$180,000

The third stage of the tax cuts which are to apply from 1 July 2024 will still apply from that date.

Big benefits for business

The headline benefits for business include:

- Increasing the small business entity threshold from \$10 million to \$50 million. This will enable around 20,000 businesses to access a range of new tax concessions.
- Changes to the research and development tax incentive that will deliver more value to companies claiming the concession.
- Temporary full expensing of capital assets. From tonight until 30 June 2022, businesses with turnover up to \$5 billion will be able to deduct the full cost of eligible depreciable assets of any value in the year they are installed.
- Temporary loss carry-back. This will allow companies with turnover up to \$5 billion to offset losses against previous profits on which tax has been paid. Losses incurred up to 2021-22 can be carried back against profits made in or after 2018-19. Eligible companies may elect to receive a tax refund when they lodge their 2020-21 and 2021-22 tax returns.



 **\$ 15,600**
million

JobKeeper
extension

 **\$ 6,744**
million

Infrastructure Investment -
states and territories

 **\$ 26,700**
million

Temporary full expensing to
support investment and jobs

 **\$ 4,000**
million

JobMaker
Hiring Credit

 **\$ 17,830**
million

Bringing forward the
Personal Income Tax Plan
and retaining the low and
middle income tax offset

 **\$ 4,854**
million

Temporary loss carry-back to
support cash flow

We all understand that budgets are an exercise in predicting the future. Given what has happened in 2020, gazing into the crystal ball and extracting something reliable is fraught with difficulty. The Treasury has given its best estimate, but we also need to appreciate that budgets are always "wrong". That's the nature of budgets. The question is, by how much?

The budget for the 2021-2022 fiscal year will be handed down in about another six months. That budget will make for compelling reading, just as much as the one released tonight.

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