Expansionary Budget Will Aid Economic Recovery

Overview

The Australian Government began providing fiscal support as soon as measures to contain COVID-19 began to impede economic activity although this Budget marks the official shift in the Government's fiscal strategy. The strategy is focused squarely on driving an economic recovery in the wake of the pandemic. Recovering from the recession has usurped any objectives relating to 'budget repair' or achieving a budget surplus.

Economic activity declined sharply since the onset of the pandemic which has seen a commensurate decline in government revenue. This decline in revenue occurred at the same time as the Government announced substantial expenditure on support measures. As a consequence, Budget projection show the largest deficit on record in 2020/21 of $213.7 billion (11 per cent of GDP). This situation is not expected to be reversed quickly, with the Budget projected to remain in deficit across the full four year forecast horizon.

The economic forecasts which underpin the Budget have been upgraded since the Interim Economic and Fiscal Update (Interim Update) released in July. In the Interim Update the 2020/21 financial year was expected to be 2.5 per cent lower than in 2019/20. It is now expected that economic activity in 2020/21 will be down by just 1.5 per cent. Further ahead, growth is projected to return in 2021/22 with growth of 4.75 per cent, 2.75 per cent in 2022/23 and 3 per cent in 2023/24.

While economic activity in the full 2020/21 financial year is expected to be below the level recorded in 2019/20, economic activity is thought to have reached a low point in the June quarter of 2020 and is projected to improve thereafter. The projected improvements would still leave the volume of economic activity below the pre-COVID levels until the first half of 2022.

Population & housing

Population growth plays an important role in generating economic activity and the Budget provided updated assumptions around the timeframe for the re-opening of Australia's borders. These assumptions imply a very cautious approach with a protracted timeline (more so than July's interim update). The implications of these revised assumptions are that Australia's rate of population growth will drop to just 0.2 per cent in 2020/21 and only recover to 0.4 per cent in 2021/22. This has obvious implications for housing demand.

With respect to investment in residential building, Treasury projections show a reduction of 11 per cent is expected in the 2020/21 financial year, with a 7 per cent recovery in 2021/22. The substantial decline in activity in 2020/21 is consistent with HIA's albeit more modest forecast for an 8 per cent decline. HIA's outlook is more pessimistic for the out years of the forecast horizon, which is arguably more justified in context of the weaker expectations for overseas migration and population growth. In order for Treasury's forecasts to be realised, a material improvement in multi-unit construction would be required in 2021/22.

Business investment & employment

The outlook for business investment is industry dependent. This is clearly illustrated by Treasury's divergent forecasts for mining and non-mining business. An increase in investment of 5.5 per cent is projected for mining firms in 2020/21, whereas non-mining firms are projected to reduce investment by 4.5 per cent. Business investment across mining and non-mining sectors is projected to converge in the out years as conditions facing non-mining businesses improve.

The outlook for the labour market has also been upgraded since the Interim Update. Treasury expect the unemployment rate to peak at 8.0 per cent in the December 2020 quarter as income support measures are wound back and mutual obligations are re-introduced for JobSeeker recipients. The labour market is projected to post steady year on year improvements over the remainder of the forecast horizon, in line with the recovery in economic growth. Labour market improvements are expected to see the unemployment rate decline to 5.5 per cent by mid-2024.

The Budget is highly expansionary and the measures announced will need to be effective in boosting private sector investment and consumption if the forecast economic recovery is to be realised. This will be particularly challenging in context of the weak outlook for population growth.

Budget Measures

This is the most expansionary Budget since the Global Financial Crisis. As such, there are an array of new revenue and expenditure measures. Several measures are directly relevant to housing although the majority of measures of note for housing focus on boosting economic activity more broadly, specifically private sector demand from both households and businesses. The majority of the programs are within the Government's marquee 'JobMaker Plan' which aims to improve the capacity of the labour force, invest in infrastructure, remove barriers to business investment, and support job creation.

Housing Specific Measures

Following the announcement of several significant housing related policies over the last week, there were no unexpected housing related policy measures in the Budget.

First Home Buyers and Affordable Housing

A number of measures to promote home building were grouped together under the 'Driving Jobs Through Housing' package.

Measures included the extension of the First Home Loan Deposit Scheme to include an additional 10,000 places which are exclusively available to first home buyers purchasing new homes until 30 June 2021. Notably, a higher home price threshold is applicable to these additional places and home buyers are given a longer time frame to take up an allotted place in the scheme.

The Budget also included an additional $1 billion in funding available through the Affordable Housing Bond Aggregator operated by the National Housing and Finance Investment Corporation. Note that this is not an increase in government expenditure, it is simply an increase in the amount of lending to social housing providers that the Government will guarantee under the scheme.

HomeBuilder Grant

While HomeBuilder was announced on 4 June, this is the first time that the program appeared in the Budget. There was no additional funding for the program announced. HomeBuilder provides eligible owner-occupiers (including first home buyers) with a grant of $25,000 to build a new home or substantially rebuild an existing home where a contract was entered into between 4 June 2020 and 31 December 2020 and building commenced within three months of the contract date (or within 6 months subject to certain circumstances). HomeBuilder is limited to new homes worth less than $750,000 and to renovations of between $150,000 and $750,000 where the total value of the property is less than $1.5 million pre-renovation. HomeBuilder will assist the residential construction market by encouraging the commencement of building and renovation projects.

Equity Injection to the Indigenous Home Ownership Program

The Government will provide an equity injection of $150 million over three years from 2020-21 to Indigenous Business Australia for new housing construction loans in regional Australia through its Indigenous Home Ownership Program. This measure will assist Indigenous Australians to access housing and support the delivery of the Government's Closing the Gap targets, while also providing an immediate, targeted fiscal stimulus to regional Australia by injecting liquidity into the financial and construction sector and generating positive flow-on effects for regional businesses.

Measures Supporting Businesses

Temporary full expensing to support investment and jobs

The Government will support businesses with an aggregated annual turnover of less than $5 billion by enabling them to deduct the full cost of eligible capital assets acquired from 7:30pm AEDT on 6 October 2020 (Budget night) and first used or installed by 30 June 2022. It will improve cash flow for qualifying businesses that purchase eligible assets and bring forward new investment to support the economic recovery.

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

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

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

Temporary loss carry-back to support cash flow

Eligible companies will be allowed to carry back tax losses from the 2019-20, 2020-21 or 2021-22 income years to offset previously taxed profits in 2018-19 or later income years.

Corporate tax entities with an aggregated turnover of less than $5 billion can apply tax losses against taxed profits in a previous year, generating a refundable tax offset in the year in which the loss is made. The tax refund would be limited by requiring that the amount carried back is not more than the earlier taxed profits and that the carry back does not generate a franking account deficit. The tax refund will be available on election by eligible businesses when they lodge their 2020-21 and 2021-22 tax returns.

Currently, companies are required to carry losses forward to offset profits in future years. Companies that do not elect to carry back losses under this measure can still carry losses forward as normal. This measure will promote economic recovery by providing cash flow support to previously profitable companies that have fallen into a tax loss position as a result of the currently weaker economic conditions, themselves associated with the economic impact of COVID-19. Loss carry-back will also support the incentive for companies to invest under the measure *JobMaker Plan – temporary full expensing to support investment and jobs*.

Supporting small business and responsible lending

The Government will implement reforms to support consumers and businesses affected by COVID-19 to facilitate Australia's economic recovery. The reforms will reduce regulatory burden to ensure a timely flow of credit and resolution for distressed business. These include:

- introducing a new process to enable eligible incorporated small businesses in financial distress to restructure their own affairs
- simplifying the liquidation process for eligible incorporated small businesses
- support for the insolvency sector
- introducing a standard licensing regime for debt management firms who represent consumers in dispute resolution processes with credit providers

- removing duplication between the responsible lending obligations contained in the *National Consumer Credit Protection Act 2009* and the Australian Prudential Regulation Authority (APRA) standards and guidance for authorised deposit-taking institutions (ADIs) and establishing a similar new credit framework for non-ADIs
- enhancing the regulation of Small Amount Credit Contracts and Consumer Leases to ensure that the most vulnerable consumers are protected.

The costs of implementing this measure will be met from within the existing resources of the Australian Securities and Investments Commission, APRA and the Department of the Treasury.

Increase the small business entity turnover threshold

The Government will expand access to a range of small business tax concessions by increasing the small business entity turnover threshold for these concessions from $10 million to $50 million.

Businesses with an aggregated annual turnover of $10 million or more but less than $50 million will have access to up to ten further small business tax concessions in three phases:

- From 1 July 2020, eligible businesses will be able to immediately deduct certain start-up expenses and certain prepaid expenditure.
- From 1 April 2021, eligible businesses will be exempt from the 47 per cent fringe benefits tax on car parking and multiple work-related portable electronic devices (such as phones or laptops) provided to employees.
- From 1 July 2021, eligible businesses will be able to access the simplified trading stock rules, remit pay as you go (PAYG) instalments based on GDP adjusted notional tax, and settle excise duty and excise-equivalent customs duty monthly on eligible goods under the small business entity concession.

Eligible businesses will also have a two-year amendment period apply to income tax assessments for income years starting from 1 July 2021, excluding entities that have significant international tax dealings or particularly complex affairs.

In addition, from 1 July 2021, the Commissioner of Taxation’s power to create a simplified accounting method determination for GST purposes will be expanded to apply to businesses below the $50 million aggregated annual turnover threshold.

Research and Development Tax Incentive

The Government will make further enhancements to the 2019-20 MYEFO measure *Better targeting the research and development tax incentive — refinements* to support business Research and Development (R&D) investment in Australia and help businesses manage the economic impacts of the COVID-19 pandemic.

For small companies, those with aggregated annual turnover of less than $20 million, the refundable R&D tax offset is being set at 18.5 percentage points above the claimant’s company tax rate, and the $4 million cap on annual cash refunds will not proceed.

For larger companies, those with aggregated annual turnover of $20 million or more, the Government will reduce the number of intensity tiers from three to two. This will provide greater certainty for R&D investment while still rewarding those companies that commit a greater proportion of their business expenditure to R&D.

The Government will defer the start date so that all changes to the program apply to income years starting on or after 1 July 2021, to provide businesses with greater certainty as they navigate the economic impacts of the COVID-19 pandemic.

Skills, Training and Job Creation Measures

Boosting apprenticeships wage subsidy

$1.2 billion has been committed over four years from 2020-21 to increase the number of new apprentices and trainees employed and to build a pipeline of skilled workers to support Australia's economic recovery. From 5 October 2020 to 30 September 2021, businesses of any size can claim the new Boosting Apprentices Wage Subsidy for new apprentices or trainees who commence during this period. Eligible businesses will be reimbursed up to 50 per cent of an apprentice or trainee's wages worth up to $7,000 per quarter, capped at 100,000 places. The wage subsidy will support school leavers and workers displaced by the COVID-19 related downturn to secure sustainable employment.

The Government will further delay the commencement of the *Incentives for Australian Apprenticeships Program* from 1 January 2021 to 1 July 2021, which will minimise disruption to employers and Australian apprentices and continue support through the existing *Australian Apprenticeships Incentives Program.*

JobMaker Hiring Credit

The Government will provide $4 billion over three years from 2020-21 to accelerate employment growth by supporting organisations to take on additional employees through a hiring credit. The JobMaker Hiring Credit will be available to eligible employers over 12 months from 7 October 2020 for each additional new job they create for an eligible employee. Eligible employers who can demonstrate that the new employee will increase overall employee headcount and payroll will receive $200 per week if they hire an eligible employee aged 16 to 29 years or $100 per week if they hire an eligible employee aged 30 to 35 years. The JobMaker Hiring Credit will be available for up to 12 months from the date of employment of the eligible employee with a maximum amount of $10,400 per additional new position created. To be eligible, the employee will need to work for a minimum of 20 hours per week, averaged over a quarter, and received the JobSeeker Payment, Youth Allowance (other) or Parenting Payment for at least one month out of the three months prior to when they are hired.

Fringe Benefits Tax — Exemption to support retraining and reskilling

The Government will introduce an exemption from the 47 per cent fringe benefits tax (FBT) for employer provided retraining and reskilling benefits provided to redundant, or soon to be redundant employees where the benefits may not be related to their current employment. Currently, FBT is payable if an employer provides training to redundant, or soon to be redundant, employees and that training does not have sufficient connection to their current employment. This measure will provide an FBT exemption for a broader range of retraining and reskilling benefits, incentivising employers to retrain redundant employees to prepare them for their next career.

The Government will also consult on allowing an individual to deduct education and training expenses they incur themselves where the expense is not related to their current employment. Individuals can currently deduct education or training expenses they incur which are sufficiently related to their current employment. The current system may act as a disincentive for Australians to retrain and reskill to support their future employment and career. The Government will consult on potential changes to the current arrangements to determine whether deductions should also be targeted to future employment and skills needs.

Skills Reform Package

The Government will provide $263.0 million over four years from 2020-21 to continue to improve the quality of the Vocational Education and Training (VET) system and to respond to the *2019 Expert Review of Australia's VET System*.

The package includes:

- $91.6 million over four years from 2020-21 (and $1.8 million per year ongoing) for a new Apprenticeships Data Management System to better support Government service delivery through the operation of the Australian Apprenticeship Support Network and administration of apprenticeship programs.
- $52.3 million over three years from 2020-21 to expand the *Skills for Education and Employment* program to support additional places for basic foundational language, literacy and numeracy skills training. A scoping study would also be undertaken to inform development of a new national framework for foundational skills.
- $29.6 million over four years from 2020-21 to support the ongoing role of the National Careers Institute to simplify and strengthen career information, promote VET pathways, and enhance partnerships between industry, employers, schools and tertiary providers.
- $1.7 million over four years from 2020-21 for the development of a National Skills Priority List for Apprenticeships to replace the current three lists with a single list based on a skills shortage methodology.
- $75.9 million over four years from 2020-21 in additional resourcing for the Department of Education, Skills and Employment to support the implementation of the *Skills Reform Package*.
- $11.9 million over three years from 2020-21 to continue the VET FEE-HELP (VFH) Redress measure in 2021 and 2022 to support students who incurred debts under the VFH loans scheme due to inappropriate conduct of their private VET provider. This remedy measure will close for new applicants on 31 December 2022.

The measure builds on the Skills Reform Package announced in the July 2020 Economic and Fiscal Update which included funding to establish the National Skills Commission to provide advice on Australia's future workforce changes and current and emerging skills needs, with a focus on vocational education and training.

Measures to Support Households

There were several measures to support households through the economic recovery, in addition to those that were implemented through the COVID-19 Response Packages.

Bringing forward the second stage of the Personal Income Tax Plan

The Government will provide additional support to Australian taxpayers by bringing forward the tax cuts in Stage 2 of the Personal Income Tax Plan from 1 July 2022 to 1 July 2020:

- The top threshold of the 19 per cent personal income tax bracket will increase from $37,000 to $45,000.
- The low income tax offset (LITO) will increase from $445 to $700. The increased LITO will be withdrawn at a rate of 5 cents per dollar between taxable incomes of $37,500 and $45,000. The LITO will then be withdrawn at a rate of 1.5 cents per dollar between taxable incomes of $45,000 and $66,667.
- The top threshold of the 32.5 per cent personal income tax bracket will increase from $90,000 to $120,000.

Stage 3 of the Personal Income Tax Plan remains unchanged and commences in 2024-25 as legislated.

Retaining the Low and Middle Income Tax Offset (LMITO) for the 2020-21 income year

The Government will retain the LMITO for the 2020-21 income year, providing further targeted tax relief for low- and middle-income earners. The LMITO provides a reduction in tax of up to $1,080.

Consistent with current arrangements, the LMITO will be received on assessment after individuals lodge their tax returns for the 2020-21 income year.

Infrastructure Investment Measures

There were measures to boost investment in infrastructure around the country, with funding for projects already in the pipeline and several new projects.

New South Wales

The Government will provide $2.7 billion from 2020-21 for priority road and rail projects in New South Wales to support economic recovery and jobs, increasing the Government's total commitment to transport infrastructure in New South Wales to over $39.0 billion. The funding includes:

- $603.0 million for the New England Highway — Singleton Bypass and Bolivia Hill Upgrade
- $591.7 million for the Newell Highway Upgrade, including Dubbo Bridge, Parkes Bypass, heavy duty pavement upgrades and overtaking lanes
- $490.6 million for the Coffs Harbour Bypass
- $360.0 million for the Newcastle Inner City Bypass, Rankin Park to Jesmond
- $150.0 million for grade separating road interfaces
- $120.0 million for the Prospect Highway Upgrade
- $94.0 million for the Heathcote Road Upgrade, Hammondville to Voyager Point
- $63.5 million for the Dunheved Road Upgrade, Penrith
- $60.0 million for the M1 North Smart Motorway — ANZAC Bridge to Warringah Freeway
- $46.4 million for the Mulgoa Road Upgrade.

Victoria

The Government will provide $1.1 billion from 2020-21 for priority road and rail projects in Victoria to support economic recovery and jobs, increasing the Government's total commitment to transport infrastructure in Victoria to over $31.5 billion. This funding includes:

- $320.0 million for the Shepparton Rail Line Upgrade
- $292.0 million for Barwon Heads Road
- $208.0 million for the Warrnambool Rail Upgrade — Stage 2
- $104.0 million for the McKoy Street — Hume Freeway Intersection Upgrade
- $84.5 million for Hall Road
- $31.0 million for Narre Warren North Road
- $30.0 million for the Western Rail Plan
- $27.2 million for the Western Port Highway
- $22.5 million for South Road.

The Government will also bring forward $610.0 million to accelerate existing transport infrastructure projects in Victoria, including:

- $605.0 million for the South Geelong to Waurn Ponds Rail Upgrade — Stages 2 and 3
- $5.0 million for the Outer Metropolitan Ring / E6 Corridor Preservation.

Queensland

The Government will provide $1.3 billion from 2020-21 for priority road and rail projects in Queensland to support economic recovery and jobs, increasing the Government's total commitment to transport infrastructure in Queensland to over $28.5 billion. This funding includes:

- $750.0 million for the Coomera Connector Stage 1 (Coomera to Nerang)

- $201.2 million for the Bruce Highway including, Caloundra Road to Sunshine Motorway, Rockhampton Northern Access Upgrade, Burdekin Bridge Upgrade, Babinda Intersection Upgrade, Cairns Southern Access Corridor — Stage 4 — Kate to Aumuller and Bruce Highway Upgrade Strategy
- $112.0 million for the Centenary Bridge Upgrade
- $76.0 million for the Riverway Drive Stage 2 (Allambie Lane — Dunlop Street)
- $50.0 million for the Beams Road Open Level Crossing Upgrade
- $42.4 million for the Mount Lindesay Highway Upgrade (Johanna Street to South Street)
- $38.0 million for the Cooktown to Weipa Corridor Upgrade — Cape York Community Access Roads
- $17.2 million for the Cairns to Northern Territory Border Upgrade — Gulf Developmental Road — Pavement Strengthening and Widening
- $10.0 million for the M1 Pacific Motorway Upgrade Program — Exit 45.

The Government will also bring forward $14.2 million to accelerate existing transport infrastructure projects in Queensland, including:

- $10.0 million for the Port of Brisbane further planning
- $4.2 million for the Brisbane to Gold Coast Faster Rail Business Case.

South Australia

The Government will provide $625.2 million from 2020-21 for priority road and rail projects in South Australia to support economic recovery and jobs, increasing the Government's total commitment to transport infrastructure in South Australia to over $9.8 billion. This funding includes:

- $200.0 million for the Hahndorf Township Improvements and Access Upgrade
- $136.0 million for the Princes Highway Corridor — intersection improvements, overtaking lanes, pavement works, rest areas, safety and signage improvements and shoulder sealing
- $136.0 million for the Main South Road Duplication Stage 2 — Aldinga to Sellicks Beach
- $100.0 million for the Strzelecki Track Upgrade
- $28.0 million for the South Eastern Freeway Safety Upgrade
- $13.2 million for the Goodwood and Torrens Junctions
- $12.0 million for the Victor Harbor Road Upgrade.

The Government will also bring forward $20.3 million to accelerate the Eyre Peninsula Network.

Western Australia

The Government will provide $1.1 billion from 2020-21 for priority road and rail projects in Western Australia to support economic recovery and jobs, increasing the Government's total commitment to transport infrastructure in Western Australia to over $15.4 billion. This funding includes:

- $227.1 million for Metronet — High Capacity Signalling and Morley-Ellenbrook Line
- $87.5 million for the Reid Highway Interchanges — West Swan Road
- $80.0 million for the Wheatbelt Secondary Freight Network
- $75.0 million for the Canning Bridge Bus Interchange
- $70.0 million for the Roe Highway Widening and Abernethy Road Upgrade
- $70.0 million for the Newman to Katherine Corridor Upgrade — Broome to Kununurra, Stage 3 of the Ord River North and Port Hedland Airport Deviation
- $56.0 million for the Karratha to Tom Price Corridor Upgrade
- $48.6 million for the Kwinana and Mitchell Freeway — barrier upgrades, widening and introduction of Intelligent Transport Systems
- $45.0 million for the Stirling Bus Interchange
- $41.6 million for the Port Augusta to Perth Corridor — Coolgardie to Esperance Highway — Emu Rocks
- $40.0 million for the Freight Vehicle Productivity Improvements Program

- $17.5 million for the Bus Lane Program — Stirling and Canning Highways (Crawley and Applecross).

The Government will also bring forward $161.4 million to accelerate existing transport infrastructure projects in Western Australia, including:

- $115.8 million for the Roe Highway-Great Eastern Highway Bypass and Abernethy Road-Great Eastern Highway Bypass Interchanges
- $24.0 million for the Freemantle Traffic Bridge (Swan River Crossing)
- $21.6 million for the Wheatbelt Secondary Freight Network.

Perth City Deal

Initially announced in late 2019, the Government will provide $327.5 million over 11 years from 2020-21 to support projects under the Perth City Deal to unlock economic benefits and opportunities for the central business district (CBD), deliver almost 10,000 jobs and encourage people back into the city creating flow on benefits for small businesses. This includes:

- $245.0 million to relocate the Edith Cowan University campus into the Perth CBD
- $47.5 million for a CBD Transport Plan to improve cycling and walking infrastructure, bus stop accessibility and safety in Perth's CBD
- $30.0 million to extend the Perth Concert Hall, upgrade the Perth Cultural Centre precinct and to fund homelessness projects in the Perth CBD
- $2.0 million to support the development of preliminary designs for the Noongar Indigenous Cultural Centre.

Tasmania

The Government will provide $359.6 million from 2020-21 for priority road projects in Tasmania to support economic recovery and jobs, increasing the Government's total commitment to transport infrastructure in Tasmania to over $3.2 billion. This funding includes:

- $150.0 million for the Hobart to Sorell Corridor — Midway Point Causeway (including McGees Bridge) and Sorell Causeway
- $72.0 million for the Tasman Roads Package — Bass Highway Upgrades (between Deloraine and Devonport), West Tamar Highway Upgrades (between Exeter and Launceston) and Bridport Road Freight Efficiency and Safety Upgrades
- $65.0 million for the Tasman Bridge Upgrade
- $52.0 million for the Midland Highway Upgrade — Future Priorities
- $12.0 million for Freight Bridge Upgrades.

The Government will also bring forward $15.0 million to accelerate the Hobart to Sorell Corridor — Hobart Airport to Sorell Southern Bypass.

Northern Territory

The Government will provide $189.5 million from 2020-21 for priority road projects in the Northern Territory to support economic recovery and jobs, increasing the Government's total commitment to transport infrastructure in the Northern Territory to over $2.7 billion. This funding includes:

- $120.0 million for the Carpentaria Highway Upgrade
- $46.6 million for the Northern Territory National Network Highway Upgrades
- $22.9 million for the Stuart Highway Upgrade at Coolalinga.

Australian Capital Territory

The Government will provide $155.3 million from 2020-21 for priority road projects in the Australian Capital Territory to support economic recovery and jobs, increasing the Government's total commitment to transport infrastructure in the Australian Capital Territory to over $975.0 million. This funding includes:

- $87.5 million for the Molonglo River Bridge
- $50.0 million for the Canberra — Southwest Corridor Upgrade package
- $15.3 million for the Monaro Highway Upgrade package
- $2.5 million for the Parkes Way Upgrade planning and design.

The Government will also:

- provide $0.6 million over two years from 2020-21 for master planning and design works for a new diplomatic estate in Canberra, to be met from within the existing resources of the National Capital Authority
- allow early repayment and a reduced rate of interest for the Australian Capital Territory's building and land loan, which will reduce interest receipts by up to $0.4 million over three years from 2020-21.

Community Development Grants — new projects

The Government will provide $102.8 million over three years from 2020-21 to deliver new projects that support local communities across Australia. Key projects include:

- $23.0 million towards the new Rockhampton Stadium in Victoria Park, Queensland
- $5.0 million towards the Regional Indoor Aquatic and Leisure Facility in Mount Barker, South Australia
- $5.0 million towards the Goolwa Sports Precinct, South Australia.

Other notable measures

Strengthening Australia's Foreign Investment Framework

The Government will provide $86.3 million over four years to implement a new ICT platform to support more effective and efficient foreign investment application processing and compliance activities across Government and a new consolidated Register of Foreign Ownership of Australian Assets. This is in addition to net funding of $54.1 million over four years announced in the *July 2020 Economic and Fiscal Update*, for *Reforming Australia's Foreign Investment Framework*.

The Government will also simplify the foreign investment fee framework and adjust fees from 1 January 2021. The revised fees will ensure that foreign investors, not Australian taxpayers, bear the costs of administering the foreign investment system.

Migration Program — 2020-21 planning levels

The Government will maintain the 2020-21 Migration Program planning level at 160,000. Family Stream places will increase from 47,732 to 77,300 places on a one-off basis for the 2020-21 Migration Program year, and Employer Sponsored, Global Talent, Business Innovation and Investment Program visas will be prioritised within the Skilled Stream. Onshore visa applicants and Partner visa applicants where the relevant sponsor resides in a designated regional area will also be prioritised for the 2020-21 Migration Program. These changes will help maximise the economic benefits of the Migration Program, and enhance the responsiveness of the program to evolving health and economic challenges.

Clarifying the corporate residency test

The Government will make technical amendments to clarify the corporate residency test. The Government will amend the law to provide that a company that is incorporated offshore will be treated as an Australian tax resident if it has a 'significant economic connection to Australia'. This test will be satisfied where both the company's core commercial activities are undertaken in Australia and its central management and control is in Australia.

The corporate residency rules are fundamental to determining a company's Australian income tax liability. The ATO's interpretation following the High Court's 2016 decision in *Bywater Investments Ltd v Federal Commissioner of Taxation* departed from the long-held position on the definition of a corporate resident. The Government requested the Board of Taxation review the definition in 2019-20. This measure is consistent with the Board's key recommendation in its 2020 report: *Review of Corporate Tax Residency* and will mean the treatment of foreign incorporated companies will reflect the position prior to the 2016 court decision.

Supporting Older Australians — exempting granny flat arrangements from capital gains tax

The Government will provide a targeted capital gains tax (CGT) exemption for granny flat arrangements where there is a formal written agreement. The exemption will apply to arrangements with older Australians or those with a disability. CGT consequences are currently an impediment to the creation of formal and legally enforceable granny flat arrangements. When faced with a potentially significant CGT liability, families often opt for informal arrangements, which can lead to financial abuse and exploitation in the event that the family relationship breaks down. This measure will remove the CGT impediments, reducing the risk of abuse to vulnerable Australians.

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