

Intro: Hello and welcome to the CPA Australia podcast, your weekly source for accounting education and career and leadership discussion.

Jane Rennie: Hello and welcome to CPA Australia's podcast on the 2020 Australian Federal Budget. I'm Jane Rennie, general manager of external affairs at CPA Australia. I'm joined today by CPA Australia tax expert, Elinor Kasapidis and business expert, Gavan Ord. It's Wednesday, the 7th of October, the day after the budget was delivered. And we're here to discuss key aspects of the budget papers.

Yesterday, the Morrison government delivered Australia's first recession budget in 30 years. In our pre-budget submission, CPA Australia called on the government to deliver a big spending budget to kickstart the nation's economic repair. In broad terms then, did the government live up to this challenge? Elinor, I'll start with you first.

Elinor Kasapidis: Thanks, Jane. Well, this year's budget certainly is a big spending budget. In that sense, the government got it right. There were a lot of targeted and time limited policies. I think that reflects the government's intention to really manage very tightly the responses. It's not a visionary budget. A lot of the long-term issues that we have, structural issues, tax reform conversations, none of those are addressed in this year's budget but that's probably appropriate, given the circumstances that we find ourselves in. We really want to see that the conversation is ongoing. We do have the budget coming up in May next year. We'd like to see some longer term visionary policies delivered then.

Gavan Ord: Well, I agree, Elinor. I think it is a big spending budget. I think it will provide a boost to the economy and to confidence. And I agree that there's a bit of a lack of a vision here. It is really responding to the circumstances we're in now. I think in that sense, it is the right budget settings but there are obviously some missed opportunities. And one of them we've been pushing for, is incentives to help businesses through the recovery phase. There's lots of incentives in this budget to help businesses in the growth phase but not much in this recovery phase. I think there is that missing ingredient in this budget but overall, a very positive, big spending budget, which is right for this particular path of the economic cycle.

Jane Rennie: There's no doubting that this budget is in stark contrast to last year's back in black surplus heralding budget. And the focus is on repairing the damage wrought by COVID-19. There's been some commentary that the pandemic debt will be repaid by younger generations for decades to come but realistically, was there any alternative, Gavan?

Gavan Ord: Well there's alternatives but the question is, what's the best option? And I think given where we are in the economic cycle, as I said before, we are in recession, that it is the appropriate budget for this point in time but it will obviously have a cost and that cost will be borne by later generations but we also have to focus on that government debt is at a 5,000 year low. The cost of government borrowing has never been cheaper. The government's interest rate, what it pays

on its debt, is less than 1%. While there's been this huge increase in debt, gross debt and net debt, the actual interest costs that governments are budgeting for, is only increased marginally. There's not a huge increase in cost over the future but it still is an increase in cost that will have to be paid for it at some point in time.

And if you look at the budget papers, they are looking at deficits for as far as the eye can see, at least for this decade, at least but yeah, if we go back to your original question, is it the right policy at this point in time? I'd say absolutely, yes.

Jane Rennie: Elinor, what's your take on this?

Elinor Kasapidis I think expansionary fiscal policy is correct at this point in time. Protecting and building our economy for future generations is also important. In terms of the choices that the government had, I think they chose the right path, in terms of making sure that businesses can recover. When you grow the economy, you grow your tax space and naturally, debts can be paid off much better than if you have an economy that still limps along for decades and doesn't address some of the issues that COVID-19 has brought to bear.

Jane Rennie: Some areas of the country have experienced the impact of the pandemic more than others, Melbourne's economy for example, suffered greatly after lockdowns were imposed in response to a second wave of the virus. And likewise, regional areas were especially hard hit. To what extent is this year's budget geographically neutral? Or does it target those parts of the country that were hardest hit? Elinor.

Elinor Kasapidis What I found really interesting in this budget, is that there's a specific announcement in relation to Victorian government business support grants, effectively giving recipients of that a tax break. That's quite a geographic specific response when generally, the federal government will look at Australia as a whole. More broadly though, I think it's not about policies directly highlighting Victoria but I think the policies like JobKeeper and JobSeeker, what is happening and Frydenberg pointed this out on the radio this morning, was that the vast majority of that will flow to Victoria simply because of the situation that they're in. In that sense, the government policy is designed in a way where those that are struggling the most, do receive the greatest benefit.

The other thing that is interesting, is about the infrastructure funding that is being made available. It's on a use it or lose it basis. In order to bring the funds into Australia, the Victorian government really needs to take a look at its projects and get as many started as possible, to take advantage of what the federal government is offering.

Gavan Ord: Well, I agree with that. I think the JobKeeper and JobSeeker will invariably be mostly taken up by Victorian businesses but it is geographically neutral but I think probably the key thing for Victorian businesses is to see what the Victorian

government comes out within the Victorian budget, probably ... I'm guessing sometime in November because federal government can't necessarily discriminate between different areas in the country. It's really up to the Victorian government now, to step up to the mark, announced some infrastructure spending in line with what the federal government have said and help to try and boost business confidence within the Victorian economy.

Jane Rennie: Elinor, the government has brought forward personal income tax for middle income earners. These were originally due to start in mid 2022 and will now be backdated. Do you regard these tax cuts as a good development and at a practical level, what do they mean?

Elinor Kasapidis They are a good development. We're very pleased to see the stage two personal income tax cuts brought forward. And it's something that we called for. The government's taken the sensible approach by holding off on any discussion about the stage three because really, the priority is about getting these changes through as quickly and smoothly as possible. It is a good thing because for those earning more than \$45,000 a year, they'll get an extra \$1,000 per annum in their pockets up to 2,400 or so for those on \$120,000 a year. At a practical level, rather than waiting for the end of the year 2021 to lodge the tax return, we would expect the ATO to adjust the withholding tables. Essentially, we've had money taken out of our wages at a higher rate than will be needed for this year. Hopefully, what will happen, is people will get a little bit more in their pay packets, as their withholding amounts are adjusted. And that's something that can then be spent in the economy and help with the recovery.

Jane Rennie: Gavan, in CPA Australia's pre-budget submission, we called for a number of measures to support small business. In broad terms, what was the substance of those recommendations and how well do you think this budget delivers for small business?

Gavan Ord: Thanks, Joanna. Thanks for that very interesting question. CPA Australia called for a number of several initiatives to support business and they focus really on businesses in this recovery phase. We have called for and have called for many times, the government to fund an incentive programme to encourage small business to seek advice from their existing advisor. We see that as essential to help businesses make the best choices for their future in how to grow or how to change their business or how to reduce the size of their business or even to [inaudible 00:09:33].

We also called for support for new businesses that have missed out on JobKeeper and cashflow boost. In both those instances, the government has not announced any incentives for business to go and seek advice, nor have they announced any further incentives or support for those new to business. That's disappointing to us. We also asked for the government to remove fees imposed on business and we note that in many states, the state governments have removed fees imposed on business. The government, as far as we can see so far, hasn't removed any fees.

And we also asked for the government to increase its funding to improve the digital capability of small business. And we know from our regular surveys of businesses across the Asia Pacific, the Australian small businesses tend to lag behind their counterparts in Asia, in their digital skills and digital uptake. This is an opportunity for the government to really make a big investment in this space. The government has made some investment in this budget in improving digital capability in small business but I think well below what's really needed, particularly if you compare what governments in Singapore or Hong Kong have done to help their businesses improve their digital capability.

Jane Rennie: And as you say Gavan, the government has in fact announced an \$800 million digital business plan. Part of that will be used to stream online services, including the Australian Business Register, as well as a range of initiatives to assist businesses to adapt to technology but are you saying it's directed towards the wrong areas of the business community?

Gavan Ord: I don't think it's misdirected. I think there are parts of it which are very good, such as the money for modernising business registers. I think that's essential but I think there's a missed opportunity to actually ... I think there's about \$29 million for additional funding for business support programmes. I think that's inadequate. To give an example, Singapore, which is an economy a quarter of the size of Australia, has a similar programme and they're putting the equivalent of 500 million Australian dollars into that programme. I would say that in that context, I think the Australian government's support plan for business to build their capability in the digital space is inadequate.

Jane Rennie: Gavan, you also mentioned support to enable businesses to seek professional advice. And just last week, CPA Australia joined with the small business and family enterprise ombudsman, Kate Carnell and other accounting bodies, to call for these initiatives. Why is this such an important initiative for businesses?

Gavan Ord: Well, the absence of an incentive programme to encourage business to get professional advice they need, means that many businesses are probably not in the best position to make ... They're not in the position to make the best decisions on their future. They do need that helping hand, particularly in this virtually unprecedented time. And I think we think that such an incentive is the missing piece in the government's strategy, that they have this large focus on the growth side and have the large focus on the survival side but there is this part in the middle where many businesses are in this recovery phase. By recovery, I mean they're now starting to move back to where they were. They're not actually recovering as in grown, they're moving back to where they were.

And the business environment has changed. The business that they took into COVID is not going to be the same as the business they take out of COVID. And to reimagine and reinvent your business does take time. And it does take professional advice. And for those businesses to access that advice, they're more likely to be successful at whatever they do, on the condition that that advisor gives them that helping hand but also alternatively, those who don't

access and advice ... We're likely to see higher rates of failure in those businesses or those businesses stagnate for longer periods of time.

In summary, we see an incentive programme to seek advice, not only helping business but we see it as critical to economic growth, growing that economic pie, as Elinor mentioned before and also to job creation.

Jane Rennie: And I imagine it's the case, that for a business that might be struggling due to COVID-19 impact, without some form of support, they simply might not have the funds available to them to seek professional advice. Is that right?

Gavan Ord: That's absolutely correct. And that's what we're hearing from members, that they do have clients that are not seeing them because they're concerned about the ... They don't have the cashflow but this is actually the time when those businesses need to actually seek advice. And we think it's essential that the government puts some money to business to help go and pay for that advice.

Jane Rennie: Newly registered businesses weren't able to receive the cash flow boost or JobKeeper payments. Elinor, can you shed some light on why this occurred? And is there anything in the budget to spur new business activity or assist businesses who were denied access to the stimulus measures during the year?

Elinor Kasapidis The newly registered businesses issue is something that's been discussed publicly for quite some time. In terms of why it happened, the design of job keypad and cashflow boost was that there was a particular notice requirement and new businesses just were unable to satisfy that. We had called on the government to consider these new businesses. A lot of them are entrepreneurial. Many of them may have just been beginning as a sole trader or starting out on their own. And we're disappointed to see that there's no incentive. There's nothing specifically there to support new businesses in Australia at the moment. The measures really seem to be focused on established businesses, previously profitable businesses and getting those going again. We would have liked to see a little bit more. Having said that, there are the capital benefits, the ability to write off the capital expenditure or access to the instant asset write-off. And so apart from that, there's really not much in there.

Jane Rennie: We're going to take a short break now. And when we return, we'll be discussing measures announced in relation to superannuation and the budget.

Announcer: The public practise conference will be going virtual this year on Thursday, the 8th of October. This one day flexible programme is designed to provide you with the tools and knowledge to navigate today's challenges and build your firm for the future. Confirmed speakers include Bernard Salt. Registrations are now open. Go to cpaaustralia.com.edu/ppc. Or look for the link in the show notes.

- Jane Rennie: Welcome back listeners. Last night, no changes were announced to the superannuation guarantee. And likewise, there were no changes announced to the COVID-19 compassionate grounds for early release from super. There had been speculation about both of these topics in recent weeks but indeed, the majority of superannuation related budget measures were relatively minor. What CPA's take on this, Gavan?
- Gavan Ord: Well, I think you hit the nail on the head, where you said there was a lot of speculation around what might happen to the SG rate and also whether they might extend the early access to super. It looks as if there won't be any further early access to super, which I think is probably the right decision at this point in time. On the super guarantee charge rate, obviously the increase is legislated but watch this space, I would say, on that one. We may see some announcement sometime in the near future around future increases in the SGC rate. In terms of the announcements on the night, they are quite minor reforms. And I suppose a lot of the reforms to this super space, we put back to when the government responds to its retirement incomes review. We might see further reforms in the next 6 to 12 months in the super space but obviously, they're waiting for that retirement income review before they make any further announcements on super.
- Jane Rennie: Elinor, do you think there are any noteworthy measures in relation to super that our listeners may be interested in?
- Elinor Kasapidis No. I agree with Gavan, there's nothing large. I think that the speculative nature of the SG, those issues, the government has steered clear. It'll be interesting to see whether they bring it up in the budget next year.
- Jane Rennie: It seems to me that the budget has delivered a bit of a mixed bag in terms of the environment. CPA Australia had called on the government to place climate change policy at the centre of Australia's strategy for economic repair. And in our view, economic recovery cannot be decoupled from the need to prevent an even larger humanitarian and environmental crisis caused by global warming. To what extent do you think the government has prioritised environmental sustainability in this budget? Gavan, I'll turn to you first.
- Gavan Ord: It's pretty clear from the amount of money put towards some environmental projects, that it's not a major focus in this budget but putting that aside, there are some useful announcements, the banning of exports of basically, recycled waste. And at the same time, couple that with the \$250 billion ... Sorry, million dollars, to put into developing a recycling industry or enhancing the existing recycling industry, is beneficial as is some of the money around improving marine or ocean health but overall, I think this is probably another missed opportunity but maybe this is something where the government might get to in the May budget, which Elinor just mentioned. They might turn their attention more to this in the next seven months.
- Jane Rennie: Elinor, what's your take on this issue?

they? Who are some of the groups or perhaps individuals who aren't mentioned in this budget? Self-funded retirees are one of the groups that comes to mind.

Elinor Kasapidis Self-funded retirees are one of those groups that have missed out. Their returns have been significantly affected by COVID-19. And it is quite challenging for them to perhaps continue to live the lifestyle that they had planned for. A lot of them are making adjustments and there's nothing in the budget for them, which is disappointing.

The other thing the budget stood clear of, was the discussion around JobSeeker and welfare benefits. The longer term unemployed, those that really have a high level of engagement with the welfare system, there's nothing really substantive in the budget. It really is focused on keeping people in education, facilitating people to get back into the workforce or to be hired into the workforce, in the case of young people with JobMaker but those more core social programmes will need to be looked at. And we'd like to see something in future budgets that address these issues. Gavan, did I miss anything?

Gavan Ord: I'd add to that, those new to business. We've mentioned them before but they've missed out. And also, if you look at the government's hiring credit, it's aimed at unemployed, those that are 35 and under. I think a category that has missed out, is people who are unemployed, who are over 35. And with the little incentives around starting a new business, that group is doubly missing out.

Jane Rennie: We all hope that we will never be faced again with a year like 2020 but after a summer of catastrophic bushfires, followed by a global pandemic and the likelihood of more severe weather events due to climate change, it seems sensible to ensure that we do have a means of quickly activating support for businesses and individuals in the event of future disasters. CPA Australia has called on the government to develop a scalable business disaster support plan. Did we make any headway towards this in the budget, Gavan?

Gavan Ord: No, not at this stage but I'm not surprised at this stage. There is a Royal commission into the bushfires going on. The government may well be holding off until the Royal commissioner hands down its findings. However, I do know we are actually heading into a bushfire season and the quicker we could have some sort of standardised response that is rolled out when a disaster is declared, I think the better we will be as a country. What we noticed in December and January during the bushfires, was the length of time it took for governments at all levels to roll out support, particularly to business. And that led to additional anxiety for many business owners and just a long period of silence. And I think a standardised form of support, a bit like what happens in the US, I think that is one way to help businesses quickly following a disaster.

Elinor Kasapidis It is important to have a scalable disaster plan. And the recommendations that will come out of the bushfire commission will be really important in designing something for the future. I'd comment that Australia's had prosperity and stability for a long time. Disruption is something that we're going to have to get

used to as it increasingly occurs in the future. What we have found though, is that in responding to COVID-19, there was a huge momentum in terms of working together, implementing programmes very, very quickly. JobKeeper was a massive, massive policy and disbursement of funds and behind the scenes, so many people, thousands of people, were involved, including the accounting profession, in making that work in a timely way. Learning the lessons from that and identifying and celebrating, I think, the huge effort that was made and using those experiences to inform our future responses, I think is really important.

Jane Rennie: It goes without saying that the accounting profession has had a challenging year. CPA members have been at the forefront of ensuring government supports get to clients as quickly and as efficiently as possible. And it's worth remembering that many accountants are small business owners themselves and have experienced significant hardship during the lockdown. Is there anything in this budget to make it easier for CPA Australia members to deliver their services, Elinor?

Elinor Kasapidis I think that apart from some of the broader programmes, such as modernising business registers, which will unlock efficiencies and streamline government services, there isn't something specific for accountants. As I mentioned earlier, a lot of the burden, especially obviously in the tax and business space, falls on accountants as advisors to business, to make sure that their clients are gaining access to as much support as possible. The lack of the voucher ... And perhaps we would have liked to have seen some changes in the fee structures that do affect our members, they're some things that were lacking in this year's budget.

Jane Rennie: Gavan, there's been a lot of talk about the impending wave of corporate insolvency when government supports are reduced. Ahead of the budget, treasurer Josh Frydenberg announced a major programme of insolvency reform but leaving aside the details of those proposals, it's evident that businesses will rely on advisors to help them negotiate the new system. Even for small businesses, insolvency matters can be incredibly complex and require detailed review and planning. Is there anything in the budget to assist the accounting profession to reach the capacity necessary to meet the demand from businesses experiencing financial distress?

Gavan Ord: Again, nothing specific in the budget. I think Elinor did touch on a couple of things. The incentives around capital investment. If an accounting firm might need to invest in building its digital capability, it now has this additional incentive to do so. And also, the hiring incentives for those under 35, \$200 for those under 30 and a hundred dollars for those 30 to 35. If they're looking to actually increase their capacity and take on more staff or invest in assets, there is some general assistance but nothing specific for the accounting profession. And obviously, we still wait to see the details, the public detail of what this insolvency reform that the treasurer announced, will look like.

Jane Rennie: Yesterday, after the budget was delivered, I know you both worked deep into the night to prepare a range of commentary and analysis for CPA Australia

members. What materials are available to members now or will be in coming days as we unpack the detail of the budget more closely? Elinor, can you give us some insight?

Elinor Kasapidis Yes, we did work long into the night to prepare a bunch of material that is all up on our Federal Budget 2020/21 website. And that'll be in the show notes on this podcast. From that website, you can actually have a look at our in the black articles. We're recording a webinar on the budget today and we'll also be preparing some summaries as well. Members also would have received through CPA, an update and a special CPA tax news edition, links to those materials as well. Is there anything I've forgotten, Gavan?

Gavan Ord: Well, there's also ... Well, Jane, you'll be leading some of the discussions on Member Connect. Encourage members to also look at Member Connect and put in their comments, observations and share those with other members, through Member Connect.

Jane Rennie: That's right, Gavan, our Member Connect portal. It gives an opportunity for CPA Australia members to engage on the Federal Budget with their peers. You can find links to these resources and Member Connect in the show notes. And Gavan and Elinor, I know you were both interviewed last night in various media and also this morning. And listeners will probably see those interviews as they become available. Thank you both Elinor and Gavan, for your expert insights and commentary. And thanks also to our listeners. We hope you've enjoyed our analysis of the 2020 Federal Budget.

Gavan Ord: Ah, thank you. Thank you for the opportunity. And it's been great to share my observations, at least.

Elinor Kasapidis Thanks so much for having me. It's been a pleasure.

Jane Rennie: For listeners who would like to learn more about the Federal Budget 2020, there is a range of analysis and commentary available on CPA Australia's Federal Budget web page. The link is available in the show notes.

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