Australia’s Federal Budget focuses on securing the recovery

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The central theme of this Budget is to secure Australia's economic rebuild. There are a number of initiatives that should support small businesses through recovery. But for those small businesses still constrained by closed borders, international travel is expected to remain low until mid-2022.

The top three announcements for small businesses in this year's Budget are:

- Funding of $1.2 billion for the Digital Economy Strategy
- Extension of Low and Middle Income Tax Offset (for 2021/22), Instant Asset Write-off provisions (until 30 June 2023) and Loss Carry-back provisions (to 2022/23)
- Deregulation agenda, using technology to reduce the time small businesses spend complying with regulations

Productivity boost from digitisation

The introduction of trading restrictions over 2020 saw many small businesses increase their use of digital tools to better run their business. The Budget includes a number of announcements, as part of the Digital Economy Strategy, which aim to continue this trend to deliver productivity benefits.

The total package of $1.2 billion includes initiatives that will directly benefit small businesses, including:

- **SME digitisation support** ($12.7 million) – Additional funding for Australian Small Business Advisory Service's (ASBAS) Digital Solutions program to provide advice to small businesses about how to digitise their business.

- **e-invoicing** ($15.3 million) – Funding to encourage take-up of e-invoicing which Treasury estimates could deliver up to $28.2 billion in net benefits over 10 years.

- **Cyber Security, Safety and Trust** ($55.1 million) – Investment in security infrastructure to improve confidence in digital systems.

- **Artificial Intelligence network** ($53.8 million) – This includes investing in a new network of four Artificial Intelligence Centres, led by CSIRO Data 61, that have the potential to lift productivity by encouraging the use of transformation artificial intelligence (AI) technologies.

In Xero’s pre-Budget survey, 26% of small business owners said they intend to further digitise their business if this policy area is supported in the Budget.

In addition, Xero’s *The Job Ahead: Small businesses and the global economic recovery* report highlighted the benefits of increased digitisation. Small businesses with five or more apps attached to their Xero account had fewer job losses during the peak in April 2020 (down 14.8% y/y versus 18.4% with no apps) and have made a stronger recovery (-1.8% y/y in December 2020 versus -5.1% y/y for no apps).

**Tax programs extended to support spending and investment**
Three major announcements from last year’s Budget have been extended.

- **The Low and Middle Income Tax Offset (LMITO)** – Extended for 2021/22 which will deliver $7.8 billion to 10.2 million Australians. This has the potential to provide ongoing support for household spending.

- **Instant Asset Write-off** – For depreciable assets for businesses with turnover below $5 billion has been extended for another 12 months until 30 June 2023.

- **Loss-carry back provisions** – For companies with turnover below $5 billion to recoup tax previously paid on prior year profits.

The two small business provisions are estimated to deliver $20.7 billion in tax relief over the forward estimates.

**Initiatives to cut red tape**
The Budget includes a $134.6 million four-year plan to reduce red tape across a range of specific industries, and more generally for small businesses. The non-industry specific initiatives are:

- **Modern Awards Pay database ($10 million)** – This project aims to make it easier for small businesses to correctly pay staff.

- **Mutual recognition of state-based licenses ($11 million)** – Strengthening the adoption of Automatic Mutual Recognition for occupational licenses which has the potential to generate $2.4 billion economic activity over the next decade.

- **Modernising document execution requirements ($10 million)** – This will allow electronic document execution which could realise up to $400 million per year in benefits to small businesses.

**Skills and apprenticeship funding increase**
The Budget also contains additional funding for skills-based programmes.

- **The JobTrainer program ($500 million, subject to States matched funding)** – This will now be extended until December 2022. It is expected to support an additional 163,000 places on top of the 100,000 places being taken up. This initiative provides funding for free or low-cost courses in areas such as aged care, IT and childcare for 17 to 24 year olds and the unemployed.

- **Boosting Apprenticeships Commencements ($2.7 billion)** – This will support an additional 100,000 apprentices and trainees, on top of the 170,000 places already supported. The scheme has also been expanded to include more programs targeted at women.

**Small businesses critical to securing the recovery**
Xero’s recently released reports on small business formation trends and jobs recovery – both highlighted the important role that small businesses play in the ongoing recovery of the Australian economy. There
are policies in this Budget that encourage household spending and business investment. However, challenges will remain for those depending on international borders opening soon.