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Queensland Budget Announcement 2020-21

A review of the Queensland Budget's major business implications

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Contents

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Executive summary

The 2020-21 Queensland Budget sees the government continuing its focus on jobs and health.

With an election having taken place barely a month ago, the Queensland Government's budget for 2020-21 confirms the funding of various election commitments, including the construction of innovative new satellite hospitals to ease the burden on the state's acute care facilities.

The Budget projects an operating deficit of $8.6 billion, to follow a deficit of $5.7 billion for 2019-20. This largely arises from the first instalments of a projected capital works investment of $56 billion over the forward estimates period to 2023-24.

Queensland has the most de-centralised population of the Australian states and it follows that more than half of the capital works expenditure is outside the Greater Brisbane area. This includes more than $5 billion for improvements to the Bruce Highway in 2020-21 alone. There is further expenditure in 2020-21 of more than $4 billion on new facilities for healthcare, education and training.

The government's $500 million Backing Queensland Business Investment Fund will be attractive for Queensland-based businesses which have a proven product and are looking to move quickly to grow their sales and market share.

We are pleased to see the commitment to invest more than $500 million in social housing in 2020-21. This complements the more than $240 million in additional funding to mental health programs and reduces the risk of vulnerable individuals being left behind as the state treads a path back to economic growth.

There is a compelling case for this Budget's focus to be on investing to support the jobs and health priorities in the near term. In parallel, the government has commenced a program to deliver administrative savings of $3 billion over the forward estimates. As with other states, there is a delicate balance to be struck over the next few years.

In due course, there will be a need for broader consideration of what will be required for robust and sustainable state finances. We hope that the thinking can turn to tax reform measures that could bolster productivity growth for the benefit of the community at large.

Michael Hiller
Queensland Chairman

Grant Wardell-Johnson
Lead Tax Partner, Economics & Tax Centre

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Chief Economist,
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Economic analysis

The Queensland Government expects the state economy to strengthen at a faster rate than the national economy this financial year.

"The real challenge for the Queensland Government will occur down the road when it has to consider the best way to repay the increased public debt, given the characteristics of the local economy, geography and population."

Today's Queensland Government budget contains significant stimulus as the state looks to recover from the economic impacts of COVID-19, which continues to be welcomed as a means of driving the state's output in light of pandemic impacts. The fundamental challenge for Queensland remains – how to meet the expectations set out in the budget in relation to growth, given the state's recent history and national picture. However, employment growth since the pandemic is a cause for optimism given the 'replacement' of effectively all lost jobs since the commencement of the COVID-19 crisis.

Underpinning the budget are two fundamental challenges. The first is the challenge of matching or beating national economic growth outcomes, which is problematic for Queensland given its industrial structure. Being biased towards those industry sectors with relatively low gross value added per employee (except for mining) makes it difficult to outperform the broader Australian economy.

The other challenge facing the government is not a new one. It is simply how to optimise budget spending and ensure high quality delivery of government services to a geographically highly dispersed population.

These are challenges successive governments have faced over the decades. However, they become more apparent following COVID-19 and the debt overhang that is now forecast from the state's fiscal response.

When Queensland's aggregate debt levels are compared to other jurisdictions, such as NSW and Victoria, it does not stand out as being problematic from a relative sense. However, when they are considered on a per capita basis they are starker. Given the two issues highlighted above, when the concept of 'paying the debt back' enters the equation it becomes a complex challenge for the government. Over the next decade it is also highly likely a program of reform will occur in taxes administered by state governments (and Queensland will get caught up in them either in competitive response to other states, or by initiating reform by itself) which will see state government tax revenues enter a period of flux.

Similarly, compared to NSW and Victoria, Queensland has a lower debt burden on a range of measures. However, Queensland has fewer people to pay the debt back; it has a higher reliance on low value industries; and it has higher cost of service delivery per capita per square kilometre of sovereign land. This is not to say the program of spending outlined in the Budget is inappropriate or reckless, but rather it is important the government recognise it has a different and narrower capacity to repay the debt build-up than other eastern seaboard states. It is therefore likely it will need to potentially extend its current savings drive into the future.

Key Insights

- While the fiscal stimulus packages contained in the Budget are as per the standard playbook being applied across other Australian states and territories, the challenge for Queensland is how best to repay the debt associated with this spend over the medium term given the idiosyncratic characteristics of the local economy, geographic spread of the population and likely tax reforms coming down the pipe over the next decade.

Stamp duty & land tax

A budget that is designed to contain no surprises, with a focus on encouraging business and growth without disturbing the waters.

Michelle Bennett

Partner,
Deals, Tax & Legal

Alex Pringle

Executive,
Deals, Tax & Legal

"Queenslanders will pay an average of $628 less in state tax this financial year than other Australians."

The low-tax state

While some other states have met the economic challenges of the pandemic with stamp duty concessions or overhauls, the Queensland budget relies on the strength of its status quo as a tax-competitive state. In 2020-21, the estimated per capita tax paid will be $2,767, a figure $628 less than the average of other states and territories.

As is the nature of transactional taxes during an economic downturn, revenue from transfer duty is expected to fall by 11.4 percent in 2020-21. This dip is primarily due a lack of commercial transfers, as the strength of Queensland's residential sector has remained solid. In contrast, land tax is expected to increase 6.2 percent in 2020-21, a rise that was softened by the land tax relief measures introduced earlier in the year to support landowners impacted by COVID-19.

COVID-19 relief measures

Revenue in 2019-20 was 3.6 percent less than the estimate in the government's mid-year review, which is partially attributable to COVID-19 relief measures introduced in the second half of the financial year.

- Rebates for 25 percent of land tax in the 2019-20 and 2020-21 years for eligible properties, which was accompanied by a 3-month deferral of land tax liabilities for all land tax payers for the 2020-21 assessment year and a waiver of the 2 percent land tax foreign surcharge for the 2019-20 year.
- Deferral of lottery tax liabilities for the July to December 2020 periods until March 2021.

Key Insights

- The government has shown a keen awareness of the benefits of stability in certain tax settings and has kept its per capita tax revenues at a relatively low level.

Hayley Lock

Partner,
Deals, Tax & Legal

Payroll tax

The budget confirms the continuation of a range of payroll tax relief measures currently in place for Queensland businesses.

"Queensland were the first jurisdiction to provide wide-ranging payroll tax relief, which supported more than 16,700 Queensland businesses affected by COVID-19."

As a result of substantial impacts of COVID-19 on employment and wages, payroll tax revenue is expected to decline by 7.5 percent in 2020-21, compared with 2019-20's revenue of $4.2 billion.

From 2020-21 onwards, payroll tax revenue is expected to grow by an annual average of 8.1 percent. Key drivers of the expected growth are:

- Recovery in employment and wage conditions.
- Expiry of 2019-20 Budget policy measures, which included the extension of the 50 percent apprentice and trainee rebate and introduction of the 'employment growth rebate', both due to expire in June 2021.
- Increased revenue resulting from additional Office of State Revenue (OSR) compliance activities.

Payroll tax relief

While there are no new payroll tax relief measures announced in the budget, there has been confirmation of the continuation of several payroll tax relief measures to help support Queensland businesses. These measures include:

- Payroll tax deferrals for Queensland businesses that are available regardless of size. Businesses eligible for deferral will not have to make a payroll tax payment in 2020 and can pay deferred liabilities in instalments throughout the 2021 calendar year.
- Payroll tax exemption for wages subsidised by the Federal Government's JobKeeper program.

Key Insights

- Significant tax relief measures implemented during the 2019-20 tax year in response to COVID-19, will continue into the 2020-21 financial year, including payroll tax deferrals and exemptions from payroll tax for JobKeeper payments.
- From 2020-21 onwards it is anticipated that additional OSR compliance activities will contribute to an increase in payroll tax revenue.

Jenny Wong

Director,
Deals, Tax & Legal

Other taxes & charges

"As COVID-19 tax relief phases out, the Queensland Government will continue to support businesses that have growth potential and that will create jobs."

The Budget confirms support measures will continue for small and medium business to assist with their recovery.

The government had already provided significant concessions for business in the form of waivers and deferrals of government fees and charges. There were only a few additional measures of this type announced in the Budget, such as:

- $81.6 million has been allocated over three years to reduce irrigation water charges for the state's farmers and fruit and vegetable growing businesses.
- $100 million in electricity bill relief for small businesses and $54.5 million to support the transport industry, as well as support for Far North Queensland ports and related businesses.
- Deferral of gaming machine tax and health services levy payments until June 2021.

In addition, the government announced further investment and grant opportunities that may be available for Queensland-based businesses:

- A $500 million Backing Queensland Business Investment Fund that will target investment in mature business in Queensland that have a proven product and defined market opportunity but require significant capital to aggressively build scale or grow market share.
- Up to $196 million in Small Business Adaption Grants of up to $10,000.
- $140 million to help small business to boost their competitiveness and resilience which includes: an initial $100 million Business Investment Fund for small and medium businesses that have significant growth potential and funding for the newly established Office of the Queensland Small Business Commissioner to provide information and advocacy for the state's small businesses.
- A government procurement target will be established where 25 percent of all government spend is to go to small and medium businesses. A 'Buy Queensland' approach will be embedded in the procurement process.

Key Insights

- A key feature of the Queensland Budget is the significant investment available for mature businesses that have a proven product, a defined market share and growth potential to assist with job creation.

Michael Hiller

Queensland Chairman

"Before, and during, the 2020 State Election campaign the Government made more than 1,000 commitments. The hard work in delivering those commitments starts with this Budget."

Government spending measures

The Economic Recovery Plan announced before the election highlighted initiatives totalling more than $7 billion to support jobs and help with economic recovery. The 2020-21 Budget builds on this support.

Investments for the safeguarding of health through infrastructure improvements include:

- $979 million to enhance capacity and services at three major public hospitals in South East Queensland.
- $265 million in funding to build seven satellite hospitals which will take patient loads away from acute-care hospitals.
- Regional health infrastructure, including: $70 million for Cairns Hospital mental health unit.

Key measures designed to increase opportunity for Queensland businesses to obtain government work include:

- Supporting the manufacturing industry, including almost $1 billion to make trains again in Queensland.
- An additional $200 million in Works for Queensland funding and a further $200 million for a COVID Works for Queensland program, complemented by a $100 million SEQ Community Stimulus Package.

Productivity-enhancing measures designed to improve connectivity and grow regional Queensland:

- $1.5 billion to continue construction work on Cross River Rail and substantial ongoing investment to fund major upgrades as part of the M1 Pacific Motorway program and upgrades to the Bruce Highway.
- $50.4 million of a $709.9 million total spend in joint funding for the Gold Coast Light Rail Stage 3A.
- $38.9 million of a $550.8 million total spend for the North Coast Line – Beerburrum to Nambour Rail Upgrade.
- $150 million for dam improvements and the government's $195 million contribution towards the Townsville City Council's Stage 2 Haughton Pipeline.
- An additional $10 million over the next four years to develop the renewable hydrogen industry in Queensland.

A range of new measures were announced that are designed to enhance the skills base:

- Around $1 billion over four years through the Great Schools, Great Future commitment, to provide new classrooms and facilities at existing schools to meet growing enrolments.
- Expanding the Building Future Schools Fund to $1.7 billion by investing an additional $346.2 million over four years from 2020-21, including for four new schools.
- $200 million to invest in the future skills requirements of Queenslanders, including: funding for TAFE facilities; priority skills, and pre-apprenticeships.

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